

AGENDA

**INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT
Wednesday, February 7, 2018 – 2:00 p.m.
1960 La Costa Avenue, Carlsbad, CA 92009**

- 1. Call to Order**
- 2. Roll Call**
- 3. Public Comment**
- 4. New Business**
 - A. Recommend that the Board of Directors Receive and File the Annual Reserve Fund Policy Review Report. (Pages 2-7)
 - B. Recommend that the Board of Directors Adopt Resolution No. 2295 establishing check signatory authority for the General Manager and Administrative Services Manager and removing the use of facsimile signatures. (Pages 8-11)
- 5. Information Items**

None.
- 6. Directors' Comments**
- 7. General Manager's Comments**
- 8. Adjournment**

MEMORANDUM

Ref: 18-6089

DATE: February 1, 2018
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager
SUBJECT: Annual Review of LWD Reserve Fund Policy



RECOMMENDATION:

Staff requests that the Investment and Finance Committee (IFC) recommend that the Board of Directors:

1. Receive and file the Annual Reserve Policy Review Report; or
2. Discuss and take other action, as appropriate.

DISCUSSION:

Tactical Goal: Financial / Finance Policy Reviews

In February 2005, the Board of Directors (Board) adopted Leucadia Wastewater District's (LWD) Reserve Fund Policy which established a means for the District to ensure that sufficient funds are available for current operating and capital needs. The policy was last revised in February 2014.

The Reserve Fund Policy establishes two distinct reserves at LWD: 1) Restricted Reserves and 2) Unrestricted Reserves. The policy also establishes various designations within each type of reserve and calls for an annual review of the reserve balances. This report constitutes that review.

During December 2017, the Board received the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017 that included the following reserve balances:

Restricted Reserves:

<u>Reserve Designation</u>	<u>Reserve Balance</u>
Capital Improvement Reserve	\$645,049
Total	\$645,049

Unrestricted Reserves:

<u>Reserve Designation</u>	<u>Reserve Balance</u>
Operations Reserve	\$ 2,224,673
Replacement Reserve	\$20,531,522
Water Recycling Reserve	\$ 1,936,073
Emergency Reserve	\$ 7,500,000
Total	\$31,192,268

Staff will provide an overview of the reserve activity during the committee meeting. Staff is *not* recommending any changes to the existing Reserve Fund Policy. A copy of the policy is attached for the committee's review.

rad:PJB

Attachment

Exhibit A

LEUCADIA WASTEWATER DISTRICT RESERVE FUND POLICY

Ref: 14-3948

A. POLICY STATEMENT:

One key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service cost needs. An additional critical element of fiscal responsibility is to anticipate and prepare for future funding requirements as well as for unforeseen disasters and other unforeseen events. The Leucadia Wastewater District (LWD) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service cost obligations. Reserve funds will be accumulated and maintained in a manner, which allows LWD to fund costs consistent with LWD's Long Range Capital Plan and Long Range Financial Plan while avoiding significant rate fluctuations due to changes in cash flow requirements. LWD will also maintain an emergency reserve position that may be utilized to fund unexpected disasters or unanticipated major failures. The Board of Directors will annually review the level of reserve funds maintained.

B. DEFINITIONS:

Restricted Reserves: Restrictions on their use are imposed by an outside source such as creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Reserves: Have no externally imposed use restriction. The use of Unrestricted Reserve funds is at the discretion of the Board of Directors. There are two categories of Unrestricted Reserves -Designated and Undesignated. At LWD, all Unrestricted Reserves are Designated Reserves.

Designated Reserves: Set-aside for a specific purpose, which is, determined by the Board of Directors. The Board of Directors also has the authority to redirect the use of these reserve funds as needs of LWD change.

C. LEUCADIA WASTEWATER DISTRICT RESERVES:

LWD maintains the following reserve funds:

1.0 RESTRICTED RESERVES:

a) Capital Improvement Reserve:

The purpose of the Capital Improvement Reserve is to finance future capital facilities that are expansion /growth related. These capital improvements are identified in LWD's Asset Management Plan and Comprehensive Financial Plan Update. These reserve funds are accumulated in an orderly manner in conformance with State law and drawn down as required by growth related capital projects.

2.0 UNRESTRICTED DESIGNATED RESERVES:

a) Operating Reserve:

Since the majority of operating revenues are received periodically over the fiscal year and operating expenses are incurred uniformly over the fiscal year, an operating reserve is necessary to fund those costs attributable to daily operations. To meet daily operational needs LWD has established an Operating Reserve balance at 33% of annual operating expenses.

b) Replacement Reserve:

The Replacement Reserve provides funds for capital replacement and refurbishment of existing facilities. These capital improvements are identified in LWD's Asset Management Master Plan and Comprehensive Financial Plan Update. Replacement Reserve funds are accumulated in an orderly manner and drawn down as required to fund capital replacement projects. To avoid abrupt sewer service rate changes, this reserve may be used to stabilize rates. The Replacement Reserve shall not exceed the 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.

LWD's capacity fee represents a system buy-in that takes into account the value of existing capacity pre-built by current users that will benefit future users, and is a source of funding for the Replacement Reserve.

c) Water Recycling Reserve:

The Water Recycling Reserve will fund capital improvements and replacement of water recycling facilities. This reserve will also be used to fund operating expenses in the Water Recycling Fund whenever there is a shortfall of recycled wastewater sales revenue to operating expenses. These capital improvements are identified in LWD'S Asset Management Plan and Comprehensive Financial Plan Update. The Replacement Reserve shall not exceed the 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.

d) Emergency Reserve:

The Emergency Reserve provides funds for emergency response for potential repair or replacement of capital facilities due to damage from a natural disaster or unanticipated major failure in a period when capital improvements funds have otherwise been purposely spent down to preset limits on planned projects. The Emergency Reserve is at the discretion of the Board of Directors and is maintained at a level of \$7,500,000, which is based on the recommendation by LWD staff and the District Engineer (Exhibit A).

D. SOURCES AND USE OF FUNDS:

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
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RESTRICTED RESERVES

Capital Improvement	Interest earned on reserve	Growth related capital expenditures	Funds previously accumulated from capacity fees. Now, capacity fees reflect 100% buy-in to the system and are transferred to the Replacement Reserve
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UNRESTRICTED DESIGNATED RESERVES

Operating	Operating income and interest earned on reserve	Wastewater Operating expenses	Reserve balance maintained at 33% of budgeted operating expenses. Excess (deficit) funds transferred to/from Replacement Reserve
Replacement	Property taxes and other non-operating income, 100% of Capacity Fees, Excess operating revenues, and Interest earned on reserve	Replacement related capital expenditures and rate stabilization	Limited to 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update
Water Recycling	Recycled Water sales and interest earned on reserve	Recycled Water capital improvement and replacement as well as operating expenses	Limited to 20-year capital replacement costs as identified in the Comprehensive Financial Plan Update.
Emergency	Originally funded by board action. Interest earned on reserve	Emergency repair or replacement expenditures	Reserve balance maintained at \$7,500,000 level. Excess funds transferred to Replacement Reserve

EXHIBIT A

Leucadia Wastewater District Discussion of Emergency Reserve Fund

Maintenance of an Emergency Reserve Fund (ERF) would provide the benefit of providing funds for emergency response for repair or replacement of capital facilities potentially necessary due to natural disaster damage or unanticipated major failure in a period when capital improvement funds have otherwise been purposely spent down to preset limits on planned projects. Separately, Capital Reserve Funds will be accumulated in a planned manner through financing, setting aside a portion of sewer service fees, or a combination of both methods, as determined by Board policy.

The amount to be recommended for maintenance in the ERF has been evaluated and discussed by Leucadia Wastewater District (LWD) staff and the District Engineer. The following table lists some pros and cons for three potential levels of ERF.

ERF Alternatives	Pros	Cons
Alternative 1: LWD maintain small ERF of \$1.0 million	<ol style="list-style-type: none"> 1) Reduces initial reliance on borrowing. 2) Would extend period of reduced rate increases. 	<ol style="list-style-type: none"> 1) Not enough reserve to respond to many reasonably possible emergency events. 2) Increased risk at point of ERF exhaustion that emergencies could not be responded to timely. 3) Reduced District liquidity and lesser financing qualifications. 4) Increased long term reliance on borrowing.
Alternative 2: LWD maintain a Moderate ERF of \$7.5 million	<ol style="list-style-type: none"> 1) Sufficient funds to adequately replace or repair two major District facilities on an emergency basis. 2) Sufficient funds to replace or repair about six or seven concurrent intermediate size facility problems at any given time. 3) Unlikely to deplete ERF in a time period that would not allow establishment of additional financing, if necessary. 4) Provides opportunity for investment of modest amount of about 1.5 years worth 	<ol style="list-style-type: none"> 1) Ties up \$7.5 million of funds that could be used to offset or defer rate increases. 2) May be considered as ability to pay discretionary fines in the potential event of a major wastewater spill. 3) Over time, it may be determined that the \$7.5 million amount should be decreased or increased depending on facility performance and risk tolerance.

	<p>of sewer service fee collections.</p> <p>5) Provides ability to fund one to two years of typical CIP schedule projects, while additional funding is being established.</p> <p>6) Increases liquidity of District that would be considered positively by financial markets when considering other financing issues.</p>	
<p>Alternative 3: LWD maintain a Large ERF of \$15 million</p>	<p>1) Very little risk that any emergency situation would result that funds were not available for immediate response.</p>	<p>1) Maintenance of large reserves is considered by some watch dog entities as a negative attribute.</p>

Based on an analysis of the above three ERF funding alternatives above, LWD staff and the District Engineer recommend that LWD adopt Alternative 2 – LWD Maintain a Moderate ERF of \$7.5 million.

MEMORANDUM

DATE: February 1, 2018
TO: Investment and Finance Committee
FROM: Paul J. Bushee, General Manager 
SUBJECT: **Resolution No. 2295 Establishing Check Signatory Authority and Removing the Use of Facsimile Signatures**

RECOMMENDATION:

Staff requests that the Investment and Finance committee (IFC) recommend that the Board of Directors:

1. Adopt Resolution No. 2295 establishing check signatory authority for the General Manager and Administrative Services Manager and removing the use of facsimile signatures.
2. Discuss and take other action as appropriate.

DISCUSSION:

The purpose of this Resolution No. 2295 is to establish check signatory authority for the Leucadia Wastewater District (LWD) General Manager and Administrative Services Manager and to remove the use of facsimile signatures.

A. Signatory Authority

Resolution No. 2154 approved by the Board during December 2005, established the General Manager's check signatory authority at \$25,000 without specific prior Board approval for the purchase of District goods, materials, services, and supplies. In addition, the Administrative Services Manager is authorized to sign checks drawn on LWD accounts for amounts not to exceed \$15,000. Checks over \$25,000 required execution by the General Manager and one District Board Member.

With the adoption of Resolution No. 2289, by the Board on September 13, 2017, the General Manager's purchasing authority for the procurement of District goods, materials, supplies and services, was increased from \$25,000 to \$35,000. After 17 years, the spending limits were increased, to reflect today's costs and to help facilitate the purchasing process in an efficient manner.

The proposed Resolution No. 2295, increases the General Manager's check signatory authority from \$25,000 to \$35,000. This will bring the General Manager's check signatory authority in line with his/hers purchasing authority of \$35,000. It will also increase the Administrative Services Manager's signatory authority to \$25,000 from \$15,000.

B. Use of Facsimile Signatures

Resolution No. 2154 previously authorized financial institutions to honor instructions, including checks or orders for payment of money, based of facsimile signatures. Facsimile signatures are not currently being used by the District and haven't been for years. The proposed resolution removes this provision.

Board of Director's approval is required to establish the above actions. Therefore, staff is requesting that the IFC recommend that the Board of Directors adopt Resolution No. 2295 establishing signatory authority for the General Manager and Administrative Services Manager and removing the use of facsimile signatures.

Attachments

rad:PJB

RESOLUTION NO. 21542295

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
LEUCADIA WASTEWATER DISTRICT
ESTABLISHING BOARD POLICY REGARDING
CHECK SIGNATORY AUTHORITY **AND**
AUTHORIZING THE USE OF FACSIMILE SIGNATURES

WHEREAS, the Board of Directors of Leucadia Wastewater District (LWD) meet only once a month and occasionally twice a month to transact business and it is often necessary and appropriate to execute checks for the purchase of goods, materials, services-supplies and supplies-services on a day-to-day basis; and

WHEREAS, the District desires to manage its funds in the best interest of the District;

WHEREAS, the District has established certain deposit accounts at financial institutions upon terms s and conditions mutually agreed upon; and

WHEREAS, it is the purpose of this Resolution to establish Board Policy with respect to the execution of checks for payment for goods, materials, services-supplies, and supplies-services procured for District purposes and to provide specific authorization to the General Manager and the Administrative Services Manager relative to the execution of checks for said purposes; and

~~**WHEREAS**, the District desires to authorize the use of facsimile signatures to open and close accounts, to sign checks and to conduct other District business.~~

NOW, THEREFORE, BE IT RESOLVED as follows:

Section 1. The General Manager is hereby authorized to execute checks for amounts not to exceed ~~\$25,000~~\$35,000 without specific prior Board approval for the purchase of District goods, materials, services-supplies, and or supplies-services.

Section 2. The Administrative Services Manager is hereby authorized to execute checks for amounts not to exceed ~~\$15,000~~\$25,000 without specific prior General Manager approval for the purchase of District goods, materials, services-supplies, and or supplies-services.

Section 3. The General Manger and District Board Members are authorized to execute checks for amounts over \$35,000 for the purchase of District goods, materials, supplies, and services. All checks in an amount over ~~\$25,000~~\$35,000 require execution by the District General Manager and one District ~~board~~Board Member.

Section 4. All checks shall be executed only for items and in amounts within the Board approved budget.

~~Section 5. Any financial institution is authorized to honor instructions, including checks or orders for payment of money, based on facsimile signatures of the authorized persons on file.~~

Section 65. The General Manager and the Administrative Services Manager shall otherwise comply with all District policies and shall keep accurate written records of all checks executed on behalf of the District.

Section 76. Resolution No. ~~2022 and Resolution No. 2098~~ are 2154 is hereby rescinded.

PASSED AND ADOPTED by the Board of Directors at a meeting of the LWD, held ~~December 14, 2005~~ February 14, 2018 by the following vote:

AYES

NOES

ABSENT

ABSTAIN

David Kulchin Elaine Sullivan, President

Attest:

Paul J. Bushee, General Manager

(SEAL)