

AGENDA

**INVESTMENT AND FINANCE COMMITTEE MEETING
LEUCADIA WASTEWATER DISTRICT**

Tuesday, February 4, 2020 – 1:30 PM
1960 La Costa Avenue, Carlsbad, CA 92009

1. **Call to Order**
2. **Roll Call**
3. **Public Comment**
4. **New Business**
 - A. Annual Review of LWD Reserve Fund Policy. (Pages 2-7)
 - B. Proposition 218 Process and Schedule a Public Hearing to Consider Adoption of an Ordinance increasing the Sewer Service Charges for Fiscal Years 2021, 2022, and 2023. (Pages 8-12)
5. **Information Items**

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

MEMORANDUM

Ref: 20-6960

DATE: January 30, 2020
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. Adopt Resolution No 2325 approving the revised Reserve Fund Policy;
2. Receive and file the Annual Reserve Fund Review Report; and
3. 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 LWD to ensure that sufficient funds are available for current operating and capital needs. The policy was last revised in February 2019.

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.

Staff has reviewed the Reserve Fund Policy and is recommending a few small changes to the existing Reserve Fund Policy. The changes are for clarification purposes and a reserve name correction. A copy of the policy with highlighted changes is attached for the committee's review.

During November 2019, the Board received the Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2019 that included the following reserve balances:

Restricted Reserves:

<i>Reserve Designation</i>	<i>Reserve Balances</i>
<i>Capital Improvement Reserve</i>	\$ 217,775
<i>Encina Wastewater Authority Reserve</i>	\$2,041,200
Total	\$2,258,975

Unrestricted Reserves:

<i>Reserve Designation</i>	<i>Reserve Balances</i>
<i>Operations Reserve</i>	\$ 2,608,294
<i>Replacement Reserve</i>	\$21,291,147
<i>Water Recycling Reserve</i>	\$ 1,315,220
<i>Emergency Reserve</i>	\$ 7,500,000
Total	\$32,714,661

Staff will provide an overview of the FY 2019 reserve activity during the committee meeting.

rad:PJB

Attachment

Exhibit A

LEUCADIA WASTEWATER DISTRICT RESERVE FUND POLICY

Ref: [19-646320-7013](#)

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 adopted Asset Management Plan and 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: These reserves have restrictions on their use that are imposed by outside sources such as creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Reserves: These 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 have been Designated.

Designated Reserves: These reserves are 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 the 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 Financial Plan. These reserve funds are accumulated in an orderly manner in conformance with State law and drawn down as required by growth related capital projects.

b) Encina Wastewater Authority Reserve:

LWD is a member agency of the Encina Wastewater Authority Joint Powers Authority (EWA). EWA maintains member agency deposits on hand to meet its operational, inventory, and capital demands during any quarter. These deposits are restricted for that use.

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 budgeted operating expenses.

b) Replacement Reserve:

The Replacement Reserve provides funds for capital replacement and refurbishment of existing wastewater facilities. These capital improvements are identified in LWD's adopted Asset Management Plan and Financial Plan. 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 total 20-year capital replacement costs for wastewater facilities as identified in the Financial Plan. The yearly average of the 20-year capital replacement costs is the minimum target balance to ensure that LWD is able to fund capital replacements as they are scheduled or needed.

c) Water Recycling Reserve:

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

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).

For further detail of the sources and uses of the above reserves please refer to following section "D".

D. SOURCES AND USE OF FUNDS:

This section describes the sources and uses of funds for LWD reserves and includes maximum and minimum reserve balances and other informational notes.

RESTRICTED RESERVES

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
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
EWA	Funds transferred from LWD to EWA for deposit with EWA	Funds transferred back from EWA to LWD due to reduction in deposit requirements	Deposit balances determined by EWA approved financial reserve policy. Deposit is for EWA Operating, Inventory, and Capital demands during any quarterly period

UNRESTRICTED DESIGNATED RESERVES

RESERVE	SOURCE OF FUNDS	USE OF FUNDS	NOTES
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, interest earned on reserve, 100% of Capacity Fees, and other non-operating income. Also excess operating <u>net</u> income transferred from Operating Reserve, and excess interest earned on emergency reserve	Replacement related capital expenditures and rate stabilization	Maximum reserve balance is 20-year capital replacement costs as identified in the Financial Plan. Minimum reserve target balance is the yearly average of the 20-year capital replacement costs as identified in the Financial Plan
Water Recycling	Recycled Water sales, grant income, and interest earned on reserve	Recycled Water capital improvement and replacement costs as well as water recycling operating expenses	Maximum reserve balance is 20-year capital replacement costs as identified in the Financial Plan.
Emergency	Originally funded by board action. Interest earned on reserve. <u>Additional funding as needed to maintain Reserve level.</u>	Emergency repair or replacement expenditures	Reserve balance maintained at \$7,500,000 level. Excess <u>(deficit)</u> funds transferred to <u>(from)</u> 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

Ref: 20-7024

DATE: January 30, 2020
TO: Investment & Finance Committee
FROM: Paul J. Bushee, General Manager 
SUBJECT: **Proposition 218 Process and Schedule a Public Hearing to Consider Adoption of an Ordinance increasing the Sewer Service Charges for Fiscal Years 2021, 2022 and 2023**

RECOMMENDATION:

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

1. Authorize Staff to Proceed with the Proposition 218 Process; and,
2. Schedule a Public Hearing to Consider Adoption of an Ordinance Increasing the Sewer Service Charges for Fiscal Years 2021, 2022 and 2023; or
3. Discuss and take other action, as appropriate.

BACKGROUND:

The LWD Board of Directors adopted a Financial Plan Study on June 6, 2018. This Plan provides critical information regarding required operating and capital expenditures for the next 20 years. The Financial Plan Study indicated that in order for the District to meet the projected future operating and capital expenditures necessary to maintain the integrity of its collection system, a sewer service charge increase was required beginning fiscal year 2021.

DISCUSSION:

At the January 8, 2020 Board meeting, staff presented an update of the Financial Plan tracking module. Staff explained that each year following the final audit, staff updates the Financial Plan tracking module to monitor how the District's revenues, expenditures, and reserves are tracking with the Financial Plan's projections.

Based on the Financial Plan Update tracking and discussion, the Board directed staff to move forward with the planned sewer service rate increase for fiscal year 2021 and proceed with the Proposition 218 Notice process.

Staff has drafted the text for the Proposition 218 Notice, along with a schedule for tasks that meets the requirements of the CA Constitution Article XIID and the Proposition 218 Omnibus Implementation Act. The draft text for the Proposition 218 Notice and schedule of tasks is attached for the IFC's review.

Staff recommends that the Board of Director's authorize staff to proceed with the Proposition 218 process, set a public hearing to consider adoption of an Ordinance increasing the sewer service charges for Fiscal Year 2021, 2022 and 2023 and approve the draft text for the Proposition 218 Notice.

th:PJB

Attachments

2020 Prop 218 Notice Schedule

Date	Tasks	Days prior to Public Hearing
1/13/2020	Begin working on the draft <i>text</i> Prop 218 Notice	149
1/30/2020	IFC agenda delivered	132
2/4/2020	IFC to review draft Prop 218 notice	127
2/12/2020	Board agenda item - authorize staff to begin Prop. 218 notice process	119
2/13/2020	Get quote to mail out Prop 218 notice	118
3/2/2020	Finalize notice and provide to RTP for graphics	100
3/12/2020	RTP provide staff with draft layout of Prop. 218 notice	90
3/16/2020	Staff review RTP design layout of notice and get back edits by 3/19/2020	86
3/26/2020	RTP complete final changes to design of Prop 218 notice	76
4/1/2020	LWD begin coordinate the mailing with printers (submit mailing list)	70
4/26/2020	Prop 218 Notice must be mailed before this date (45 days prior to public hearing)	45
5/27/2020	Public Hearing Notice in UT w/ notice Collection of Wastewater Service Charge	14
6/3/2020	Public Hearing Notice in UT w/ notice Collection of Wastewater Service Charge	7
6/10/2020	Public Hearing date June Board meeting	0
7/1/2020	New FY 21 Sewer Rates effective date	

About Leucadia Wastewater District

The Leucadia Wastewater District (District) was formed in April 1959 pursuant to the County Water District Law. Established as an Enterprise Special District, the District is authorized to provide wastewater collection and treatment services, and to levy rates and fees to support those services.

The District provides wastewater service to the Leucadia and Village Park areas of Encinitas and the La Costa area of Carlsbad. The District encompasses 16 square miles and serves approximately 62,600 residents. Wastewater from the District's service area is transported to the Encina Water Pollution Control Facility where it is treated to federally-mandated standards to protect public health. The Encina plant is a regional facility located in Carlsbad that is jointly owned by the District and five other public entities.

The District also owns and operates the Gafner Water Reclamation Facility, which has a treatment capacity of 1 million gallons per day. Recycled water produced at the Gafner Facility is sold to the Omni La Costa Resort and Spa for use as irrigation for its golf course.

Leucadia Wastewater District
1960 La Costa Avenue
Carlsbad, CA 92009



Notice of Public Hearing on Sewer Service Charge Increase

The ***Leucadia Wastewater District*** is considering sewer service rate changes that will affect your property tax bill. This document explains the public hearing and protest process, the rate increases being proposed and it will further explain the reasoning behind the proposed rate adjustments.

Public Hearing Information

A public hearing will be held on the proposed increases to sewer service charge rates in fiscal years 2021, 2022, and 2023.

The public hearing will be held on **Wednesday, June 10, 2020 at 5 p.m.** in the Boardroom located at 1960 La Costa Avenue, Carlsbad, CA 92009. The Board of Directors will hear and consider oral testimony and written material submitted regarding the proposed rate increases at the hearing. Any written protest must include a name, signature and the property address or Assessor Parcel Number (APN). One written protest per parcel will be counted in calculating a majority protest to the proposed increase.

Notice of Public Hearing

In compliance with Article XIID of the California State Constitution and the Proposition 218 Omnibus Implementation Act, notice is hereby given that the Leucadia Wastewater District Board of Directors will hold a public hearing regarding proposed sewer service charge increases for the next three fiscal years.

Public Hearing Information Continued

Written protest may be mailed to the Leucadia Wastewater District at 1960 La Costa Avenue, Carlsbad, CA 92009 or submitted prior to and during the public hearing. Submissions will be accepted if they are received prior to the close of the public hearing. At the close of the public hearing, the Board of Directors will consider and may approve the rate increases. **Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest.** If, by the close of the public hearing, written protests against the rate increase are not presented by a majority of property owners, the Board of Directors will be authorized to adopt an ordinance to increase the sewer rate charge. Although the public hearing will be held to consider proposed rates for three fiscal years, the Board of Directors will annually confirm the need for the annual rate prior to July 1st of the last two years of the rate period. The time and place for these future meetings will be provided in published newspaper notices and posted on the District's Website at www.lwwd.org

Explanation of Annual Sewer Service Charge Increases

The Leucadia Wastewater District proactively plans for increases in costs associated with operations, maintenance, and replacement or rehabilitation of aging infrastructure. The District also pays a percentage share of the operation, maintenance, and capital replacement cost at the jointly owned Encina Sewage Treatment Plant. To cover these anticipated increases in costs, an increase in wastewater rates over the next three years is being proposed. This will be the first increase in three years, as the District has successfully kept rates flat for that time frame. During the last three years, the District has continually inspected its sewer lines and pump stations and maintained them in excellent working order. The District also spent over \$20 million on equipment and infrastructure replacement and rehabilitation. The District used an engineering firm to develop an Asset Management Plan which determines when capital facilities will need to be replaced, and at what costs. The District also used a financial firm to prepare a Financial Plan Study, which projects the District's revenue and expenditures over the next twenty years and determines the timing of sewer rate increases. These proposed sewer rate increases for the next three years are part of the latest Financial Plan Study completed in June 2018.

These increases are based on the needs of the District. They will pay for anticipated operating costs of over \$27,000,000 for utilities and chemicals, increases in ongoing repairs and maintenance costs, and increased treatment cost at the Encina plant for the next three years. In addition, they will pay to fund anticipated capital replacement and rehabilitation costs of over \$22,000,000 for the next three years. The District's current sewer service charge is \$28.64 per month, or \$343.68 annually, per Equivalent Dwelling Unit (EDU). Currently, the District has the lowest sewer service rate in San Diego County. To help keep costs down, the District utilizes a pay as you go methodology. The District has no financing debt but collects funds ahead of time to pay for upcoming capital needs, thus saving significant amounts on financing and interest expense.

The Leucadia Wastewater District Board of Directors is proposing rate increases for the next three fiscal years in accordance with the following chart. All rates are based on one Equivalent Dwelling Unit (EDU).

Fiscal Year	Annual Rate	Monthly Rate
2020 (Current)	\$343.68	\$28.64
2021	\$378.04	\$31.50
2022	\$415.84	\$34.65
2023	\$457.42	\$38.12

The current San Diego County average monthly sewer charge, as of January 2020, is \$50.86 per month per EDU. ¹

¹ Wastewater User Charge Survey Report,