

# NOVATO SANITARY DISTRICT

May 30, 2013

The Finance Committee of Novato Sanitary District will hold a meeting at 4:00 PM, Thursday, May 30, 2013, at the District offices, 500 Davidson Street, Novato.

## AGENDA

1. **AGENDA APPROVAL:**

2. **PUBLIC COMMENT (PLEASE OBSERVE A THREE-MINUTE TIME LIMIT):**

This item is to allow anyone present to comment on any subject not on the agenda, or to request consideration to place an item on a future agenda. Individuals will be limited to a three-minute presentation. No action will be taken by the Board at this time as a result of any public comments made.

3. **MINUTES**

- a. Consider approval of the minutes of the May 3, 2013 meeting.

4. **FINANCIAL POLICIES:**

- a. Review the Reserve Policy and make recommendations to the Board.

5. **SEWER SERVICE CHARGES:**

- a. Review sewer service charges for 2013/14 and make recommendations to the Board.

6. **ITEMS FOR NEXT COMMITTEE MEETING:**

7. **ADJOURNMENT:**

***In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the District at (415) 892-1694 at least 24 hours prior to the meeting. Notification prior to the meeting will enable the District to make reasonable accommodation to help ensure accessibility to this meeting.***

***Materials that are public records and that relate to an open session agenda item will be made available for public inspection at the District office, 500 Davidson Street, Novato, during normal business hours.***

May 3, 2013

The Finance Committee of Novato Sanitary District held a meeting at 3:12 p.m., Friday, May 3, 2013, at the District office, 500 Davidson Street, Novato.

COMMITTEE MEMBERS PRESENT: Members William C. Long and Jean Mariani.

STAFF PRESENT: Manager-Engineer-Secretary Beverly B. James, Deputy Manager-Engineer Sandeep Karkal, Finance Officer Laura Creamer and Administrative Secretary Julie Swoboda.

ALSO PRESENT: Tom Gaffney, Bartle Wells Associates

AGENDA APPROVAL: The agenda was approved as presented.

REVIEW OF MINUTES: The March 8, 2013 meeting minutes were approved as written.

FINANCIAL POLICIES:

- Review the Reserve Policy and make recommendations to the Board. The Manager stated that Bartle Wells Associates (BWA) had been asked to conduct a review of the operating and the non-operating reserve funds. She stated that BWA had also been asked to evaluate the proper allocation of reserve funds and to make recommendations for consolidating reserves.

Tom Gaffney, BWA, discussed the District's policies and reserve categories and noted that the funds overlap. After a discussion and review of the requirements of the District, Mr. Gaffney stated that Bartle Wells recommended the following actions:

- Continue to maintain at least seven months of operating reserves based on the actual budgeted operating expenses.
- Consolidate the Vehicle Replacement Reserve, the Southgate Reserve, and the Capital Improvement Fund into one Capital Reserve Fund.
- Maintain the June 30<sup>th</sup> Capital Fund Reserves at the three year average of pay-as-you-go capital improvements plus \$100,000 for a vehicle replacement set aside.
- Consolidate the Rate Stabilization, Emergency Repair, and Self-Insurance Reserves into one Rate Stabilization Reserve Fund.

PENSION AND OTHER POST-RETIREMENT BENEFIT LIABILITIES:

- Review current medical after retirement benefit actuarial report. The Manager stated that Nick Franceschine of North Bay Pensions recently prepared an actuarial report on behalf of the District for the valuation of our retiree medical benefits as of July 1, 2012. She discussed the actuarial results and the District's obligations under Statement No. 45 of the Governmental Accounting Standards Board (GASB 45) and the District's five-year projection of costs.

- Review CalPERS pension plan update. The Manager reviewed the Districts current pension plan and retiree medical cost trends. She discussed modifications the District began instituting in November 2011 which have successfully reduced its pension funding burden.

The Manager reviewed the CalPERS report “Annual Review of Funding Levels and Risks”. She noted that this report was intended to assist the CalPERS Board of Administration in assessing the funded status of the Public Employees Retirement System and its overall soundness and sustainability.

ITEMS FOR NEXT COMMITTEE MEETING:

- Review possible trust funds for OPEB (Other Post-Employment Benefits).
- Prepare a cash-flow analysis for the District.
- Receive a new Reserve policy from Tom Gaffney based on discussion from committee meeting.

ADJOURNMENT: The meeting was adjourned at 4:45 p.m.

Respectfully submitted,

Beverly B. James  
Secretary

Julie Swoboda, Recording

## MEMORANDUM

Date: May 30, 2013  
To: Board of Directors  
From: Finance Committee: Jean Mariani, William Long  
Subject: Reserve Policy Revision

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The Finance Committee met on May 3<sup>rd</sup> to begin the revision of the District's Reserve Policy. Tom Gaffney of Bartle Wells reviewed the District's existing Reserve Policy and made the following recommendations:

1. Eliminate the Vehicle Replacement Reserve and transfer the money currently in the Vehicle Reserve into the Capital Reserve Fund. Future vehicle purchases will be budgeted as a Capital Expenditure.
2. Eliminate the Southgate Reserve and transfer the money currently in the Southgate Reserve into the Capital Reserve Fund. Future Southgate sewer improvements will be budgeted as Capital Expenditures.
3. Eliminate the Self Insurance Reserve and transfer the money currently in the Self Insurance Reserve into the Operating Reserve.
4. Consolidate the Rate Stabilization and Emergency Repair Reserve into one reserve fund.

The Committee agreed with these recommendations and discussed how to set the target amount for each of the reserve funds. The Committee identified the following objectives for the Reserve Funds:

- A. Reserves should be prudent but not excessive. Major capital projects such as treatment plant upgrades should be funded using bonds or loans rather than building up reserves.
- B. The Operating and Capital reserves should be adequate to cover cash flow needs including a one month cushion between April and December when most of the service charges and property taxes are received.
- C. The Emergency and Rate Stabilization Reserve should be sufficient to fund unusual one-time expenses such as disaster response, legal fines or fees without having to do a significant rate increase. After a draw-down, the fund should be replenished over a few years so it is available in the future.

- D. The Reserves should be clearly linked to the Budget and Audit so that it is transparent to anyone reviewing the District's financial documents.

Staff worked with Tom Gaffney to revise the Reserve Policy based on these recommendations and objectives. The proposed Reserve Policy has three Reserve Funds: Operating Reserve, Capital Reserve, Debt Service Reserve, and Rate Stabilization/Emergency Repair Reserve.

### **Operating Reserve**

The amount in the Operating Reserve will fluctuate over the course of the year. In order to be able to align the Reserve with the budget and audit it is recommended that the target for the Operating Reserve be set for the equivalent of **7 months of operating expenditures as of June 30<sup>th</sup> of each year**. Service charges make up 91% of total revenues and are billed on the annual property tax statements. Therefore on June 30<sup>th</sup> it will be six months before the District receives new revenues. Operating expenses are fairly evenly distributed over the course of the year although they are somewhat higher during the summer months when both Reclamation and the Recycled Water treatment plant are being operated. Setting an Operating Reserve target of 7 months expenditures as of June 30<sup>th</sup> will allow the District to pay bills until the December tax receipts are received with an 8% cushion for higher summer expenses.

### **Capital Reserve**

It is recommended that the target date for the Capital Reserve also be set for **June 30<sup>th</sup>** of each year so that the District can be confident that it will be able to provide for the expenditures included in the following year's capital budget. Capital Revenues are made up primarily of Sewer Service Charges (72%), Property Taxes (20%), and Connection Charges (5%). Service Charges and Property taxes are received in April and December. Connection Charges are received throughout the year and can vary significantly from year to year.

The District has ongoing fixed capital costs for the principal and interest payments on the SRF loan and Certificate of Participation of approximately \$7 million. These payments are due in August, December, and February. The December property tax and capital service charge receipts total about \$4 million. Therefore as of June 30<sup>th</sup>, the District has to have on hand the balance of \$3 million for the loan and COP payments plus sufficient capital funds to pay for the coming year's capital projects.

***The recommended target Capital Reserve on June 30<sup>th</sup> of each year is \$3 million plus the anticipated cost for the coming year's capital projects.***

### **Debt Service Reserve**

***The COP conditions require that the District maintain a Debt Reserve of \$1.5 million.*** This will be used to make the last payment on the COP.

## **Rate Stabilization and Emergency Repair Reserve**

The District currently has \$600,000 each of these reserves. The COP references the Rate Stabilization Reserve so the District must keep it at least until the COP is paid off.

***The recommended target Rate Stabilization and Emergency Repair Reserve is 10% of annual service charge and property tax revenues.*** This amount would be kept in the Reserve year round unless Board action authorized its use for exceptional expenses. Any draw on this reserve would be replaced within three years.

### **Are current reserves consistent with the proposed targets?**

Table 1 shows current reserves and compares them with the target amounts based on the draft Preliminary 2013/14 budget.

**Table 1: Novato Sanitary District  
Current Operating and Capital Reserve Funds and Proposed Targets**

	<b>Current Reserve June 30, 2013</b>	<b>Proposed Target Criteria June 30, 2013</b>	<b>Proposed Target Reserve June 30, 2013</b>
Operating Reserve	\$5,778,573	58% of Operating Expenditures (1)	\$5,388,200
Rate Stabilization Fund	\$600,000	combine	
Emergency Reserve Fund	\$600,000	combine	
Rate Stabilization and Emergency Reserve		10% of Service Charge and Tax Revenues (2)	\$1,800,000
Self Insurance Fund	\$164,516	eliminate	
<b>Total</b>	<b>\$7,143,089</b>		<b>\$7,188,200</b>
Current Capital Reserve	\$10,609,894	\$3,000,000 + 13/14 project costs (3)	\$10,866,377
Vehicle Replacement Fund	\$238,795	eliminate	
Southgate Reserve Fund	\$679,989	eliminate	
<b>Capital Reserve</b>	<b>\$11,528,678</b>		<b>\$10,866,377</b>
<b>Debt Service Reserve</b>	<b>\$1,500,000</b>	legally required	<b>\$1,500,000</b>

**Note 1:** Calculations based on Operating Expenditures 2013/14 budget of \$9.29 million

**Note 2:** Calculation for 10% of 13/14 operating revenues:

Sewer service charges	\$16,167,918
(Based on budget numbers)	
Property Taxes	\$1,740,000
	<hr/>
	\$17,907,918

**Note 3:** 2013/14 capital budgeted projects = \$10,866,377

## MEMORANDUM

Date: May 30, 2013  
To: Board of Directors  
From: Finance Committee: Jean Mariani, William Long  
Subject: Service Charge Review

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The Board of Directors adopted Ordinance No. 116 in June 2012 setting sewer service charge rates for the fiscal years 2012/13 through 2015/16. Table 1 below shows the residential rates that were adopted.

Table 1 – Residential Rates, annual*	Customers				
	No. 2012	2012-13	2013-14	2014-15	2015-16
1 SU (Average Water Use)	19,248	\$495	\$514	\$533	\$552
Low Water Use	1,048	\$297	\$308	\$320	\$331
High Water use	1,674	\$891	\$925	\$960	\$994

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\* Includes \$2 County of Marin charge for collection on tax rolls

The Committee expressed an interest in reducing the difference between the High and Average Water Use rate for residences. The current high water use rate is currently 1.8 times the average rate for residences using 2 or more times the average water use. Table 2 shows the revenue impact of two alternatives: (i) Keep the High Water Use rate at the current dollar amount; and (ii) Gradually reducing the multiplier from 1.8 to 1.65.

Table 2 – High Water Use Alternatives	Customers				
	No. 2012	2012-13	2013-14	2014-15	2015-16
Current Schedule	1,674	\$891	\$925	\$960	\$994
Keep Rate at 2012/13 Level	1,674	\$891	\$891	\$891	\$891
Revenue Reduction			\$57,000	\$116,000	\$172,000
Decrease Multiplier	1,674	1.8	1.75	1.70	1.65
Revenue Reduction			\$43,000	\$90,000	\$139,000