

NOVATO SANITARY DISTRICT

Board Meeting Minutes

Meeting Date: January 25, 2021

A Special meeting of the Board of Directors of the Novato Sanitary District was held via Zoom® conferencing at 3:01 p.m., Monday, January 25, 2021.

BOARD MEMBERS PRESENT AS NOTED BY ROLL CALL⁽¹⁾: President Pro-tem William Long, Directors Tim Fuelle, Jean Mariani, and Jerry Peters. (President Dillon-Knutson joined the meeting at 3:09 p.m.)

STAFF PRESENT AT 500 DAVIDSON STREET⁽¹⁾: General Manager-Secretary Sandeep Karkal, Finance Officer Laura Creamer, and Administrative Secretary Julie Hoover.

ALSO PRESENT⁽¹⁾: Dale Thrasher, Administrative Services Officer, Novato Sanitary District
Erik Brown, Deputy General Manager, Novato Sanitary District

⁽¹⁾All via Zoom® teleconferencing.

PLEDGE OF ALLEGIANCE:

AGENDA APPROVAL: The agenda was approved as presented.

PUBLIC COMMENT: No public comments were submitted via email prior to the meeting, and no public comments were presented during the public comment period.

A President Dillon-Knutson had not yet joined the meeting, the General Manager President Pro-tem Long to begin the meeting until she joined the meeting. President Pro-tem Long agreed to proceed with the meeting.

- STRATEGIC FINANCE REVIEW:

- Receive staff memorandum titled "Strategic Review of District Finances and Reserve Policies, Budget Years 2020-2026", and provide direction, if any. The General Manager stated that at the October 2020 Board meeting, staff presented a Proposed Schedule - Strategic Review of District Finances and Reserves for Budget Years 2020-2026. He stated that the schedule called for the Board to receive a draft 5-year Financial Projection for fiscal years 2021-26, including preliminary revenue/expenditure projections and fund balances across all District funds, and current reserves policies. He stated that, subject to the recommended actions at that meeting, staff had prepared a memorandum titled "Strategic Review of District Finances and Reserve Policies, Budget Years 2020-2026".

The General Manager stated that this memorandum included information on historical revenue/expenditure patterns, and presented several potential scenarios of future revenue/expenditure projections and fund balances across all District funds for Budget Years 2020-26. He stated that, in addition, red-line draft versions of updated District Policy 3500: Reserves, and Policy 3510: Funds Policy, were prepared for illustrative purposes, based on potential consideration of recommended revenue and expenditure Scenario 4,

shown on page 16 of the agenda packet. The General Manager stated that he would review the presented materials, and recommended that the Board provide direction, if any.

President Dillon-Knutson joined the meeting at 3:09 p.m.

The General Manager began discussing the memorandum titled "Strategic Review of District Finances and Reserve Policies". He stated that the District currently carries approximately \$71.5 million of outstanding capital facilities related debt, mainly from construction of the Treatment Facilities Upgrades completed in about 2010, the Recycled Water Facility (RWF) completed in about 2012, and various collection system and pump station upgrade projects constructed through about 2016. He stated that on the operating side, the primary debt was from the District's pension and Other Post-Employment Benefits (OPEB) liabilities.

The General Manager provided details of the pension and OPEB liabilities, noting that in October 2020, the District refinanced its GASB 68 CalPERS pension liability with the 2020 Taxable Revenue Refunding Bonds. He stated that since the CalPERS liability had been effectively structured as a 25-year loan at an effective interest rate of 7%, and the 2020 Bonds were issued with an 18-year term at an "all-in" interest rate of 2.83%, the refinancing resulted in a cumulative savings to the District of about \$3.85 million. He stated that a separate benefit of this action was that it effectively eliminated the District's GASB 68 Pension Liability from the District's financial statements, leaving only the GASB 75 OPEB liability "on the books" at this time.

The General Manager stated that despite its debt, the District enjoys a strong financial position as evidenced by its Standard and Poors (S&P) "AAA" credit rating, which is the highest rating available. He stated that a key component of this rating, as identified by S&P, is the District's commitment to well-defined debt management practices, strong reserves positions, and fiscally sound financial policies.

The General Manager continued, outlining the District's budget-to-expenditures history (Tables 1 and 2). He stated that recognizing there can be significant unknowns that can affect future revenues and expenditures, it was still worthwhile to project future revenues (Tables 3 and 4) and expenditures (Table 5) over the next five-year period for strategic review purposes. He stated that, accordingly, staff ran four revenue and expenditure scenarios for the combined periods of the current fiscal year 2020-21 and the projected five-year fiscal period 2022-26, which were included in Tables 6 to 9 as Scenarios 1 through 4. He stated that these revenue/expenditure scenarios were modeled on the 2-year "Summary of Fund Balances" statement presented annually in Section 1 of the District Annual Budget document, and were modeled to follow and be consistent with District Policy No. 3500 (Reserves Policy) and Policy No. 3510 (Funds Policy).

The General Manager reviewed details of the four scenarios with the Board. In conclusion, he stated that Table 4 was likely the "best" Scenario to inform strategic decision making on finance/budgeting going forward in that it likely provided the best balance of realistic revenues and expenditures from an overall strategic financial planning perspective. He recommended that Scenario 4 be considered to inform future decision making, and potentially model finance activities for the fiscal year ending (FYE) 2022-2026 budget years.

He stated that the strike-out and red-line edits to District Policies 3500 and 3510 were created with Scenario 4 as the proposed outcome to inform future decision making.

At this time, the General Manager noted a typographical error on page 8, Point 3 of Section 4.0: Conclusions and Recommendations: ~~Scenarios 3 and 4~~ **Scenarios 2 and 3** both fall somewhere in between Scenarios 1 and 4 in terms of getting...

President Dillon-Knutson called for comments from the Board.

Director Mariani stated that the Strategic Review memorandum presented by the General Manager was very thorough and represented a lot of work, and she agreed that Scenario 4 would serve as good guidance for the District over the next five years. She suggested, however, that the recommended policy changes to District Policy No. 3500 and Policy No. 3510 be set aside at this time, and be brought forth for action at the February 8th Board meeting.

Director Long congratulated staff on the report and stated that the differing scenarios were very well presented. He expressed his concerns about the District holding a large cash balance due to the current economic circumstances: low interest rates and rising inflation. He questioned if there were other financial options in which to invest District cash reserves to provide a higher return and possible inflation protection.

The General Manager stated that being on the California Sanitation Risk Management Authority (CSRMA) Executive Board had helped him better understand the Government Code provisions that deal with permissible categories for public agencies to invest their cash reserves, as CSRMA is a joint powers Authority (JPA) that is governed by the same government Code provisions. He stated that within the permissible categories, there are areas that offer a potentially higher level of return on investments than the category where the District is currently investing. He stated that CSRMA invests in a way that is consistent with the Government Code provisions relating to permissible investments, and that they do generate excess return compared to LAIF. He suggested that in the next year or so, after he gained more knowledge of CSRMA's investment strategies, he would bring this knowledge to the District Board with recommendations (if any).

Director Peters stated that he agreed with the comments of Directors Mariani and Long, and commented that the report was very professional and well prepared. He stated that he also recommended Scenario 4.

Director Fuelle stated that he also recommended Scenario 4.

President Dillon-Knutson stated that she echoed Director Mariani's recommendations for updating District Policies No. 3500 and 3510 at the next available Board meeting. She stated that the information presented was of great value, and showed the financial health of the District. She stated that the presentation provided a good opportunity to discuss the District's cash reserves and open the possibility to reposition District funds to create a greater return going forward. She thanked staff for their hard work on the report.

The General Manager expressed his thanks to staff and his appreciation for the Board's comments. He requested that Board members provide any comments or revisions to District Policies 3500 and 3510 to him as soon as possible, so that the revised policies could be presented at the February 8th Board meeting.

On motion of Director Peters, seconded by Director Fvette, and carried unanimously by roll call, the Board recommended that Scenario 4 of Table 9 be considered to inform future Novato Sanitary District decision making, and that District's Policy No. 3500 (Reserves Policy) and Policy No. 3510 (Funds Policy) be updated and presented in final draft form at the February 8, 2021 Board meeting.

BOARD MEMBER REPORTS AND REQUESTS:

Director Long stated that he attended a presentation of the City of Novato Planning Division. He stated that the State of California was mandating numerous jurisdictions to greatly increase their housing plans. He stated that if this proposal moves forward and there is a greater number of units built in the next few years, this may be favorable to the District by bringing in additional revenue through new connection charges.

GENERAL MANAGER'S REPORT AND ANNOUNCEMENTS:

- Reports:
 - All Board Members are registered for the upcoming CASA conference; be sure to look for the email generated by CASA for access to the conference.
- Announcements:
 - The next regular Board meeting is currently scheduled for Monday, February 8th, at 5:30 p.m. by remote conference calling.

ADJOURNMENT: There being no further business to come before the Board, President Dillon-Knutson adjourned the meeting at 4:20 p.m.

Respectfully submitted,

Sandeep Karkal
Secretary

Julie Hoover, Recording