

CRESCENTA VALLEY WATER DISTRICT

2700 FOOTHILL BOULEVARD LA CRESCENTA, CALIFORNIA

Agenda for the Meeting of the Finance Committee of the
Crescenta Valley Water District

To be held on Wednesday, July 8, 2020 at 1:30 p.m.

Posted: Tuesday, July 7, 2020 at 12:30 p.m.

TELECONFERENCING NOTICE

[This meeting will be held by teleconference only.]

Pursuant to the provisions of Executive Order N-29-20 issued by Governor Gavin Newsom on March 18, 2020, the public may not attend the meeting in person.

Any member of the public may participate by listening or making comments using a touchtone phone. You may select any of the following phone numbers (there are more than one for increased reliability during this time of increased phone traffic)

(669) 900-6833

(346) 248-7799

(929) 205-6099

(253) 215-8782

(301) 715-8592

(312) 626-6799

Then, enter Access Code: 810 6739 8506

[Pursuant to the above Executive Order, the public may not attend the meeting in person.]

Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by contacting the District by phone or in writing at the above email address. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so that District staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the District to provide the requested accommodation.

Call to Order

Adoption of Agenda

Public Comments

At this time, members of the public shall have an opportunity to address the Committee on items of interest that are within the subject matter jurisdiction of the Committee. This opportunity is non-transferable and speakers are limited to three (3) minutes each.

Action Item(s)

The public shall have an opportunity to comment on any action item as each item is considered by the Committee prior to action being taken. This opportunity is non-transferrable, and speakers are limited to one two-minute (2) comment each.

1. Discuss proposed Water and Wastewater Fund Policies
2. Discuss proposed Fleet Asset Management Program

Committee Members' Request for Future Agenda Items

Adjournment

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Attachment(s): Water and Wastewater Fund Policies

Crescenta Valley Water District

Finance Committee

Summary of Water & Wastewater Fund Policy Options

July 8, 2020

The Water & Wastewater Fund Policies were developed through a series of Committee and Board meetings, and the last time this subject was revisited was the Board meeting on March 10, 2020.

The District currently practices a fund policy and should formally adopt a policy. Furthermore, the District's credit rating agency – Standard & Poor's – will expect a fund policy in association with the current financing the District is pursuing.

The fund policy as last presented included three (3) components for each of the water and wastewater funds. Staff recommends that the Board adopt a fund policy ahead of a credit rating presentation with Standard & Poor's scheduled for early August. The Committee may recommend one or more components of the fund policy. Of the three components, at minimum, the Operating Fund Policy must be adopted to meet the expectations of Standard & Poor's.

SUMMARY OF FUND POLICIES

- **Operating Fund Reserve**
 - Emergency Fund – Maintain \$1 million for repairs or other operational needs during an emergency
 - Adjusted for inflation annually
 - Rate Stabilization Fund – Maintain 25% of annual water purchases (Water) / 25% of projected wastewater revenues (Wastewater)
 - Working Cash – Maintain three (3) months of operating costs (less the cost of purchased water)

- **CIP Reserve Fund**
 - Set aside at least one (1) year of funding for construction costs not related to pipeline replacement (Water) / Sewer Interceptor Line replacement (Wastewater)

- **Pipeline (Water) / Sewer Interceptor Line (Wastewater) Fund**
 - Set aside funding for at least two (2) years of construction costs related to a program that replaces pipelines every 75 years (Water) / at least one-half (1/2) of the construction costs related to replacing the Sewer Interceptor Line (Wastewater)

SUMMARY OF PROPOSED OPTIONS

- **Alternative A**
 - Operating Fund Reserve only (minimum requirement to meet the expectations of Standard & Poor's)

- **Alternative B**
 - Operating Fund Reserve
 - CIP Reserve Fund

- **Alternative C**
 - Operating Fund Reserve
 - CIP Reserve Fund
 - Pipeline (Water) / Sewer Interceptor Line (Wastewater) Fund

ARTICLE 21: WATER FUND RESERVE POLICIES

21.01 POLICY AND PURPOSE

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Crescenta Valley Water District will at all times strive to have sufficient funding available to meet its operating, capital and debt service obligations while avoiding significant customer rate fluctuations due to changes in cash flow requirements. Through a variety of policy documents and plans, including the District's Strategic Plan and other financial policies, the Board has set forth a number of long-term goals for the District. A fundamental purpose of the District's policy documents and plans are to link what must be accomplished with the necessary resources to successfully do so. The Board of Directors may designate specific reserve funds and maintain minimum fund balances consistent with what is determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure that the District has sufficient funds to meet current and future needs. The Board will review the level of reserve funds in accordance with the review and approval of ~~the annual budget~~each budget cycle. The Board will also review the reserve target ~~every three years~~each budget cycle.

21.02 WATER OPERATING RESERVE FUND

The Water Operating Reserve Fund will be comprised of the following sub-accounts: the Emergency Fund, the Rate Stabilization Fund, and the Working Cash Fund.

- A. Emergency Fund – This fund is established in order to address repairs or other operational needs in the event of an emergency where immediate needs exceed what has been budgeted for infrastructure and operations. This fund should be sufficient to cover the immediate average cost of an emergency such as a main break and also ensure the fund level keeps pace with inflation.
 - i. Target Level – This fund shall be maintained at a minimum level equal to \$1.0 million as of the adoption of this policy. On July 1 of each year, the emergency fund target will be adjusted by the Consumer Price All Items Index for all Urban Consumers (CPI-U) for Los Angeles- Long Beach-Anaheim for February of that year (published about March 15th). The balance of the Emergency Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The District may deposit or withdraw available monies upon the authorization of the General Manager in the event of an emergency.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District's evolving needs.
- B. Rate Stabilization Fund – This fund is established in order to mitigate the impacts of fluctuating water usage by customers and to augment the District's credit profile with respect to debt financing.
 - i. Target Level – This fund shall be maintained at a minimum level equal to ~~one quarter~~25% of the projected annual water purchases for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Rate

Stabilization Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

- ii. Events or Conditions Prompting the Use of the Fund – This fund will be used to mitigate or spread out rate increases made necessary by unusual circumstances such as drought or mandatory water conservation. The Board will determine the amount and timing for any use of the fund.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.
- C. Working Cash Fund – This fund is established in order to maintain a reserve for current operations and to meet routine cash flow needs.
- i. Target Level – This fund shall be maintained at a minimum level equal to three months of the District’s water operating costs less the cost of purchased water as projected for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Working Cash Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The Board, on a case-by-case basis, will determine the amount and timing for any use of the fund.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.

21.03 WATER PIPELINE RESERVE FUND

- A. Water Pipeline Reserve Fund – This fund is established in order to develop and maintain a dedicated pipeline replacement program that replaces pipe every 75 years, which is the average useful life of pipeline.
- i. Target Level – This fund shall be funded to sustain at least ~~two~~three years of construction costs of pipeline consistent with a 75-year pipeline replacement program. The balance of the Pipeline Reserve Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The District may use the fund for construction costs as authorized by the Board in the budget.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.

21.04 WATER CAPITAL IMPROVEMENT PROGRAM REPAIR & REPLACEMENT RESERVE FUND

- A. Water Capital Improvement Program Repair & Replacement Reserve Fund – This fund is established in order to develop and maintain a dedicated replacement program for non-pipeline infrastructure.
 - i. Target Level – This fund shall be funded to sustain at least one year of projected capital repair and replacement costs indefinitely. The balance of the Repair & Replacement Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The District may use the fund for construction costs as authorized by the Board in the budget.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.

21.05 WASTEWATER OPERATING RESERVE FUND

The Wastewater Operating Reserve Fund will be comprised of the following sub-accounts: the Emergency Fund, the Rate Stabilization Fund, and the Working Cash Fund.

- D. Emergency Fund – This fund is established in order to address repairs or other operational needs in the event of an emergency where immediate needs exceed what has been budgeted for infrastructure and operations. This fund should be sufficient to cover the immediate average cost of an emergency such as a main break and also ensure the fund level keeps pace with inflation.
 - i. Target Level – This fund shall be maintained at a minimum level equal to \$1.0 million as of the adoption of this policy. On July 1 of each year, the emergency fund target shall be adjusted by the Consumer Price All Items Index for all Urban Consumers (CPI-U) for Los Angeles- Long Beach-Anaheim for February of that year (published about March 15th). The balance of the Emergency Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The District may deposit or withdraw available monies upon the authorization of the General Manager in the event of an emergency.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.
- E. Rate Stabilization Fund – This fund is established in order to mitigate the impacts of fluctuating water usage by customers and to augment the District’s credit profile with respect to debt financing.
 - i. Target Level – This fund shall be maintained at a minimum level equal to 25% of projected wastewater rate revenues for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Rate Stabilization Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

- ii. Events or Conditions Prompting the Use of the Fund – This fund will be used to mitigate or spread out rate increases made necessary by unusual circumstances such as drought or mandatory water conservation. The Board will determine the amount and timing for any use of the fund.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.
 - F. Working Cash Fund – This fund is established in order to maintain a reserve for current operations and to meet routine cash flow needs.
 - i. Target Level – This fund shall be maintained at a minimum level equal to three months of the District’s wastewater operating costs less the cost of purchased water as projected for each budget cycle. This is in line with industry standards and credit rating agency expectations for a healthy level. The balance of the Working Cash Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The Board, on a case-by-case basis, will determine the amount and timing for any use of the fund.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.

21.06 WASTEWATER SEWER INTERCEPTOR RESERVE FUND

- B. Sewer Interceptor Reserve Fund – This fund is established in order to develop and maintain a dedicated reserve to replace at least one-half of the approximately 6.7-mile sewer interceptor line which connects the District’s collections system to the City of Los Angeles’ treatment facility. The majority of the sewer interceptor line was constructed in one year, 37 years before the adoption of this Policy, and is therefore expected to require significant surges in required replacement rather than incremental maintenance. This fund should also keep pace with inflation.
 - i. Target Level – The target level for this fund shall be the estimated current cost of replacing at least one-half of the sewer interceptor line, which is estimated at \$11.0 million as of the adoption of this policy. On July 1 of each year, the estimated current cost shall be adjusted by the Consumer Price All Items Index for all Urban Consumers (CPI-U) for Los Angeles-Long Beach-Anaheim for February of that year (published about March 15th). The balance of the Sewer Interceptor Reserve Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.
 - ii. Events or Conditions Prompting the Use of the Fund – The District may use the fund for construction costs as authorized by the Board in the budget.
 - iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.

21.07 WASTEWATER CAPITAL IMPROVEMENT PROGRAM REPAIR & REPLACEMENT RESERVE FUND

B. Wastewater Capital Improvement Program Repair & Replacement Reserve Fund – This fund is established in order to develop and maintain a dedicated replacement program for non-sewer interceptor infrastructure.

i. Target Level – This fund shall be funded to sustain at least one year of projected capital repair and replacement costs indefinitely. This is in line with industry standard. The balance of the Repair & Replacement Fund may decline below the minimum level if recommended by the General Manager and expressly approved by the Board.

ii. Events or Conditions Prompting the Use of the Fund – The District may use the fund for construction costs as authorized by the Board in the budget.

iii. Periodic Review Dates for Reserve Targets – Reserve targets will be reviewed by the Board every budget cycle, scheduled during the budget process, to ensure that the reserve targets are continuing to meet reserve objectives as they relate to the District’s evolving needs.

21.058 EXCESS OF RESERVE REQUIREMENTS

In the event that reserve accounts exceed minimum target levels, the Board may instruct staff to perform either of the following. The Board may authorize additional funding of any reserve fund as appropriate given the current operational and infrastructure needs and economic factors.

The Board may also instruct staff to prepare an analysis to determine the liabilities for which prefunding will yield the most savings for the District.

Staff will present this analysis to the Finance Committee and the Board for review and approval of the recommended options.

21.069 FINANCIAL BENCHMARKS

The District strives to maintain a strong credit profile in order to provide assurance to customers, bond holders, rating agencies and other stakeholders that the District proactively manages its financial resource and is financially sustainable. These benchmarks will be evaluated and communicated to the Board during each budget cycle. The District has set forth the following financial benchmark goals:

A. Credit Rating: The District’s credit rating is an easily accessible measure for the District’s financial health. The credit rating also has a direct impact on the access to financial markets and the cost of incurring debt. It is the District’s goal to achieve and maintain an AA (Standard & Poor’s) rating.

B. Debt Service Coverage: The District’s ~~is~~ requirement to maintain a minimum debt service coverage ratio will range from 1.00 times to 1.25 times the annual debt service payment. It is the District’s goal to exceed the minimum coverage ratio with a target of 2.00 times the annual debt service payment.

21.0710 RULES AND REGULATIONS

The District shall have the authority to create rules, regulations, and procedures to implement and carry out the intent and purpose of this section provided such rules, regulations, and procedures are consistent with this section

21.0811 AMENDMENT/MODIFICATION/TERMINATION

This Article 21 may be amended, modified, or terminated by the District at any time after its adoption. Amendments, modifications, or termination shall be considered and approved, or disapproved, only at a noticed regular public meeting by the District's Board of Directors.

Rev. ~~February~~ March 2020