SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Ed Fortner, General Manager

Meeting Date: October 3, 2019

Subject: District Unfunded CalPERS Pension Liability - Part II

RECOMMENDED ACTION:

Finalize a decision on if and how to address the District's unfunded pension liability (UL). An extra payment towards UL should be received by CalPERS in December to ensure it is included in next year's PERS valuation report.

FISCAL IMPACT:

$120,000 to $945,000 this fiscal year, depending on the Board's decision. Absorbing fiscal impacts this fiscal year will be more than offset by savings on UL expense in future years.

The FY 2019-20 budget provides for a total of $120,000 for unfunded pension liability expense. Of this, $55,451 is a mandatory payment, and $64,549 is an extra payment. This does not include ongoing pension expenses, budgeted at $95,000 this fiscal year.

DISCUSSION:

At our last Board meeting we discussed the District's growing unfunded liability (UL) with CalPERS, and some options for paying this high-interest debt earlier than required. Staff proposed using the District's policy reserve to pay down UL in $500,000 increments over two years, with a plan to reimburse policy reserves from the operating budget over a 7-year period. The discussion lead to additional questions about the District's policy reserve for FY 2019-20, as well as the District's cash balances.

First, a review of the District's 2019-20 policy reserves, set at $1,379,359. Attached as background is Ordinance 41, Reserve Policy, and the accompanying staff report from December 2009. Based on the components set forth in Ordinance 41, each year staff calculates the policy reserve. On the next page is the worksheet for FY 2019-20:

Policy Reserve Components:		2019-20	2018-19
Cash Reserve	15% of annual Operating Budget	$324,810	$287,308
Oper Reserve	25% of annual Operating Budget	$541,350	$478,847
Capital Reserve	$250,000 (25% of 1,000,000 Capital Program)	$250,000	$250,000
Debt Reserve:	$25% of all payment for principal and interest	$263,198	$253,596
		$1,379,359	$1,269,751

	2019-20	2018-19	2017-18
Operating Budget Expenses	$2,165,401	$1,915,387	$1,833,300
Debt payments:	$1,052,794	$1,014,385	$1,009,260
Cap One	$566,558.00	$563,194.00	$564,344.00
Citizens	$216,076.42	$225,044.81	$234,013.20
GO Bond 2013	$64,284.00	$64,284.00	$64,284.00
State Loan	$146,619.00	$146,619.00	$146,619.00
GO Bond 2018	$59,256.25	$15,243.60	

While the Ordinance sets forth a clear and thoughtful plan for determining the amount of policy reserves each year, it is silent on where to store those reserves. In the past, policy reserves were stored in several funds at the County. This has proven somewhat confusing both in remembering where these funds are stored and in tapping reserves, which became necessary with CIP 2018. This year staff has streamlined policy reserves storage into a single fund, with the exception of policy reserves stored in our longstanding Building Fund, and reserves held at the pension trust (PARS) and the retiree health benefits trust (CERBT). To illustrate the changes made, attached are three versions of our County funds worksheet:

1. County funds worksheet from FY 2018-19
2. County funds worksheet showing how policy reserve funds were moved around to streamline their storage (as well as funds that will no longer be visible because of a zero balance)
3. County funds worksheet as revised for FY 2019-20. Funds holding policy reserves are colored orange. Note that we have also added a column to this worksheet for our West America bank account used to pay GO Bonds.

Next, let's look at the District's cash as of the end of August. The County funds worksheet shows reserves <u>above</u> policy at $1,178,311. However, this number is deceptive because it includes our required debt payments. As of the end of August we still have approximately **$483,074 in debt payments** to make this fiscal year, leaving **$695,237 available to spend**. Most of this is located in the Capital Improvements Fund (aka "CIRF").

DEBT PAYMENTS* = STATE LOAN + CAP ONE BOND AND CITIZENS BANK LOAN + USDA BONDS
$483,074 = $146,945 + $211,963 + $124,166

AVAILABLE TO SPEND* = RESERVES ABOVE POLICY - LOAN PAYMENTS
$695,237 = $1,178,311 - $483,074

* AS OF THE END OF AUGUST, 2019

The final part of this discussion is how much of the $695,237 available to spend could be used on our UL debt. The short answer is almost all of it, but it might not be wise. When the District took out the second USDA bond in 2018, the bond proceeds were in excess of our interim financing costs. It was staff's original intent to use that excess to pay down UL. However, last year's budget overruns ate into operating surpluses that could be transferred to CIRF. Further, even though CIP 2019 -- the Monte Rio Treatment Plant Green Sand Filter Replacement -- came in under budget and is mostly paid for as of the end of August an unplanned emergency project at the Harrison Tank has come up. It is unknown how much that will cost. As well, if the District is to meet the projected cost of CIP 2021 - $914,000 - we will need about two years of saving to self-finance that project.

This brings us back to the original question of whether we can (or should) accelerate extra payments to CalPERS for our UL. A final attachment to this staff report for your consideration is a summary of various repayment schedules that was part of the UL staff report at the September meeting. Staff remains in favor of paying off our UL, but using policy reserves to do so. This course of action seems the best way to address this high-interest debt without overly compromising the District's Capital Improvement Program.

SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-C**

FROM: Steve Mack, General Manager

Meeting Date: December 3, 2009

SUBJECT: ADOPTION OF ORDINANCE NO. 41 ESTABLISHING A DISTRICT RESERVE POLICY

RECOMMENDED ACTION: Adopt, by reading of title only, Ordinance No. 41, An Ordinance of Sweetwater Springs Water District Adding Policy Number 3510, District Reserve Policy, to the District's Policy and Procedures.

FISCAL IMPACT: Adoption of Ordinance No. 41 would have the financial impact of designating a certain amount of funds as reserves that will be used only in certain, defined situations. The Board will be able to direct use of the funds as long as a plan is established to return the reserves to the designated level.

DISCUSSION:

Ordinance 41 was introduced at the November 5, 2009 Board meeting. In introducing the ordinance, the Board modified Ordinance 41 by changing the Operations Fund from $200,000 to 15% of Operating Budget expenses and deleting a sentence in Section 3050.23 that allowed modification of the Capital Reserve by resolution. Table 1 shows the amounts of funds that would be designated by the Ordinance 41 reserve policy compared to the draft reserve policy used for the FY 2010 Budget. Table 1 also shows the amount of funds available to the District for construction of capital improvement projects. After Ordinance 41 becomes effective, staff anticipates coming back to the Board to revise the FY10 Budget to reflect the appropriate Policy Reserve amounts as part of a mid-year budget adjustment.

Staff recommends adoption of Ordinance 41. If adopted at this meeting the ordinance will become effective in 30 days on January 4, 2010 and will become a part of the District's budget process. Below is a summary of the staff report for the November meeting that provides background on the reserve policy, revised to reflect the ordinance introduced at the November meeting:

Reserve policies are common and recommended for public agencies. They provide a "rainy day" fund for unanticipated events, establish a measure of financial health, and they are part of the process for determining how much capital spending an agency can afford.

Over the past 10 years the District has worked hard to improve its financial condition. Today, that condition is good. We are audited each year and recent audits have given the District good marks for financial accountability and openness. Operational, economic, and other possible uncertainties suggest some level of reserves is needed.

At the same time the District needs substantial infrastructure improvements, has an aggressive capital improvement program (CIP) and is asking for funding assistance to construct the projects in the CIP. The annual revenues of the District are not sufficient to fund the needed CIP and funds for these projects will come in part from District reserves, loans, or grants. Some measure of the District's reserves is needed to determine how much of the District's money is available to construct the CIP and still stay in good financial condition, and how loans and grants can fit into the District's long term financial picture. A formal reserve policy which sets out the appropriate amount of District funds needed for unanticipated events, will help identify reserves available for the CIP while ensuring the District stays in good financial condition.

Ordinance 41 establishes that reserve policy and places it in the District's Policies and Procedures in Section 3510. The reserve policy is based on setting aside 25% of Operating Budget Expenses, 25% of annual debt principal and interest payments, 25% of a nominal $1 million capital improvement program, and cash equivalent to 15% of the Operating Budget for ongoing operations at the start of the fiscal year. A draft reserve policy based on revenues, but not including a debt payment reserve, was used for the Fiscal Year 2009-2010 (FY10) Budget.

The Board discussed the reserve policy at its September and October meetings and Ordinance 41 at its introduction at the November meeting. It agreed with the concept of a reserve at the 25% level, directed staff to include debt repayments in the reserve, and directed that the operating reserve be based on expenses rather than revenues. At the November meeting the Board revised the draft Ordinance 41 to have the Operations Fund at 15% of Operating Budget expenses and deleting a sentence in Section 3050.23 that allowed modification of the Capital Reserve by resolution. Table 1 shows the amounts that would be in the policy reserves for the FY10 Budget if the Ordinance 41 policy were used, and compares those amounts to those in the adopted FY10 Budget. To summarize Table 1, the Policy Reserve amount in the adopted FY10 Budget is $995,830; using the approach in Ordinance 41 it would be $1,157,910.

Some observations on the recommended District Reserve Policy:

- The reserve policy amount sets a target which the annual budget should not go below. Ordinance 41 provides flexibility by allowing going below the target if there is a plan to get above the target within a reasonable time. The plan could involve raising rates over time, reducing CIP spending in a future year or some other cost reducing or revenue increasing approach.

- Ordinance 41 in Section 3510.3 defines District funds in excess of the Reserve Policy as Reserves above District Policy. That identifies the amount of funding available for the District's Capital Improvement Program.

Table 1. Ordinance 41 Policy Reserves

	2010 Budget, operating revenues	Ordinance 41, operating expenses
2010 Operating Revenues/Expenses	$2,183,318	$1,587,703
Debt P&I Payments		$1,091,314
Operating Reserve (10%+15%=25%)	$545,830	$396,926
Capital Reserve	$250,000	$250,000
Cash on Hand (Operations Fund)	$200,000	$238,155
Debt Payments Reserve		$272,829
Total Policy Reserves	$995,830	$1,157,910
FY 2010 EOY Reserves	$3,069,581	
Funds above Reserve Policy	$2,073,751	$1,911,671

ORDINANCE NO. 41

AN ORDINANCE OF SWEETWATER SPRINGS WATER DISTRICT ADDING POLICY NUMBER 3510 TO THE DISTRICT'S POLICY AND PROCEDURES, RESERVE POLICY

WHEREAS, the District wishes to establish a formal policy regarding financial reserves for District funds for the purposes of providing information to District elected officials and staff, District customers, and other observers of the District that demonstrate the financial health of the District, provide consistent designations for different categories for the reserves, define standards for the minimum amounts to be maintained in the designated reserves, and provide flexibility in using District funds; and

WHEREAS, reserve policies are common and recommended for public agencies because they provide a "rainy day" fund for unanticipated events and establish a measure of financial health; and

WHEREAS, adequate levels of reserves, or funds designated for various important purposes, are critical to the successful and stable operation of the Sweetwater Springs Water District; and

WHEREAS, maintaining adequate reserves can translate into rate stabilization from year to year for customers and provides assurance that the District can respond to short-term emergencies, including water quality issues and natural disaster recovery, and economic uncertainties; and

WHEREAS, the Board has determined that the levels of reserves enumerated below are the appropriate levels for the purposes of the reserve policy; and

WHEREAS, determining the level of reserves for the purposes designated in the reserve policy is an essential part of the process for determining how much capital spending the District can afford; and

WHEREAS, the District's reserve policy will be most readily understood and accepted if it is formally adopted; and

WHEREAS, staff presented and the Board considered and discussed the reserve policy at the September 3 and October 1, 2009 meetings, and

WHEREAS, Ordinance 41 was introduced at the November 5, 2009 meeting.

NOW THEREFORE BE IT ORDAINED by the Board of Directors of the Sweetwater Springs Water District, County of Sonoma, as follows:

Section 1. Policy Number 3510 of the Sweetwater Springs Water District Policy & Procedures is hereby added as follows.

3510. District Reserves.

3510.1. Purposes of District Reserve Policy. The purposes of the District Reserve Policy are to provide information to District elected officials and staff, District customers and other observers of the District that demonstrate the financial health of the District, provide consistent designations for different categories for the reserves, define standards for the minimum amounts to be maintained in the designated reserves, identify funding available for future capital improvement projects, and provide flexibility in using District reserves.

3510.2. Components of Designated District Reserves.

3510.21. Operating Budget Cash Reserve. The District will have a cash reserve of 15% of the annual Operating Budget expenses at the start of each fiscal year to provide for prompt payment of operating expenses for the coming fiscal year.

3510.22. Operating Reserve. The District will establish and maintain a reserve equal to 10% of its annual operating budget expenses for the purposes of providing for one-time costs, dealing with economic uncertainty, The District will establish and maintain a reserve equal to 15% of its annual operating budget expenses for the purposes of dealing with emergencies and disaster-related expenses. In combination, the Operating Reserve will have a target of 25% of the Operating Budget expenses.

3510.23. Capital Reserve. The District will establish a Capital Reserve of $250,000, which is equal to 25% of a nominal $1,000,000 Capital Program.

3510.24. Debt Repayment Reserve. The District will establish a debt payment reserve which is equal to 25% of all payments for principal and interest on all District loans in the annual operating and capital budgets.

3510.25. District Policy Reserves. The combined amount of reserves designated by Sections 3050.21-24 are known as District Policy Reserves.

3510.3. Undesignated Reserves. Reserves in District funds in excess of the amounts designated in sections 3050.21-24 above are undesignated, are known as Reserves above District Policy, and are available for use for District purposes, such as funding the Capital Improvement Program.

3510.4. Annual Review of District Funds and Reserve Levels. The District Policy Reserves levels will be reviewed as part of the annual District Budget

approval process. The District may drop below the District Policy Reserve levels only if a plan is developed as part of the budget approval process that shows how the District will reestablish reserves that meet the District Policy Reserve amount.

Section 2. Effective Date. This ordinance shall become effective thirty (30) days after the date of its adoption by the Board of Directors.

This Ordinance was adopted this 3rd day of December, 2009, on roll call by the following vote:

Jim Quigley _____
Gaylord Schaap: _____
Victoria Wikle: _____
Wanda Smith: _____
Sukey Robb-Wilder:_____

_____
Victoria Wikle
President of the Board

ATTEST:

_____
Julie A. Kenny
Clerk of the Board

County Balances FY 2018-19 and Reserves Above Policy

Beginning balances:
(Note: Warrants requested in FP 12 for last fiscal year are not subtracted from Cash until FP 1 of the next year. They are instead recorded as "Vendors Payable")

														(using FY 2018-19 Reserve)
	$37,077.06	$200,945.35	$123,508.03	$10,850.00	$96,475.00	$491,931.25	$71,908.65	$266,473.85	$ 2,515.75	$146,863.42	$102,315.00	$791,250.09	$2,104,091.04	**$1,036,580.64**
NAME	**CERBT**	**PARS** (part of Oper Res)	**Operations + 15% Cash Policy Reserve**	**Bldg Fund** (part of Oper Res)	**Operating Policy Reserve** (25% less Bldg Fund and PARS)***	**Federal Loan (GO Bonds)** CIP 2018	**In-house Construction**	**Capital Improvements**	**Guernewood Project Escrow Funds**	**State Loan 58340**	**Capital and Debt Policy Reserve** Annual Debt: $932,957 (county) + $99,000 (WA)	**Cap One Bonds and Citizens Bank Loan Debt**	**Policy Reserve:** (calc. FYE 2018)	**$1,265,940**
Fund			**76751**	**76752**	**76753**	**76754**	**76755**	**76756**	**76757**	**76759**	**76761**	**76762**	**TOTAL at COUNTY ↓**	**Reserves Above Policy** (PARS + COUNTY - GUERNEWOOD PK ESCROW)
Dep't			7106 **0100**	7106 **0200**	7106 **0300**	7106 **0400**	7106 **0500**	7106 **0600**	7106 **0700**	7106 **0900**	7106 **1100**	7106 **1200**		
FP1-Jul	$37,077.06	$204,586.92	$123,508.03	$10,850.00	$96,475.00	$491,931.25	$71,908.65	$266,473.85	$2,515.75	$146,863.42	$102,315.00	$674,243.49	$1,987,084.44	**$923,215.61**
FP2-Aug	$37,077.06	$207,454.87	$123,508.03	$10,850.00	$96,475.00	$478,551.25	$71,908.65	$279,580.95	$2,515.75	$146,863.42	$102,315.00	$218,059.49	$1,530,627.54	**$469,626.66**
FP3-Sept	$37,860.58	$206,941.56	$123,508.03	$10,850.00	$96,475.00	$441,685.47	$71,908.65	$279,580.95	$0.00	$73,554.41	$102,315.00	$218,059.49	$1,417,937.00	**$358,938.56**
FP4-Oct	$37,860.58	$196,833.74	$299,861.49	$10,850.00	$96,475.00	$410,754.84	$71,293.86	$288,350.41	$0.00	$73,554.41	$102,315.00	$218,059.49	$1,571,514.50	**$502,408.24**
FP5-Nov	$37,860.58	$199,373.10	$299,861.49	$10,850.00	$96,475.00	$174,962.07	$69,734.49	$288,350.41	$0.00	$73,554.41	$102,315.00	$218,059.49	$1,334,162.36	**$267,595.46**
FP6-Dec	$37,477.54	$190,711.85	$469,861.49	$10,850.00	$96,475.00	$118,813.98	$69,107.46	$693,269.46	$0.00	$73,554.41	$102,315.00	$218,059.49	$1,852,306.29	**$777,078.14**
FP7-Jan	$37,477.54	$201,502.22	$294,180.89	$25,850.00	$246,475.00	$475,388.19	$30,778.78	$986,751.25	$0.00	$73,554.41	$302,315.00	$110,021.28	$2,545,314.80	**$1,480,877.02**
FP8-Feb	$37,477.54	$205,287.65	$294,180.89	$25,850.00	$246,475.00	$463,012.10	$29,235.71	$993,280.15	$0.00	$73,554.41	$302,315.00	$3,011.28	$2,430,914.54	**$1,370,262.19**
FP9-Mar	$41,286.94	$208,017.85	$294,180.89	$25,850.00	$246,475.00	$0.00	$29,235.71	$526,592.25	$0.00	$146,945.40	$302,315.00	$786,011.28	$2,357,605.53	**$1,299,683.38**
FP10-Apr	$41,286.94	$212,220.26	$297,474.82	$25,850.00	$246,475.00	$0.00	$29,235.71	$650,031.19	$0.00	$146,945.40	$507,019.00	$786,011.28	$2,689,042.40	**$1,635,322.66**
FP11-May	$41,286.94	$205,540.47	$397,474.82	$25,850.00	$246,475.00	$0.00	$29,235.71	$592,531.19	$0.00	$146,945.40	$507,019.00	$786,011.28	$2,731,542.40	**$1,671,142.87**
FP12-Jun	$42,621.30	$214,170.83	$241,819.82	$25,850.00	$246,475.00	$0.00	$29,235.71	$769,691.69	$0.00	$146,945.40	$507,019.00	$786,011.28	$2,753,047.90	**$1,701,278.73**
FP 13 (FINAL)	$42,621.30	$214,170.83	$245,519.11	$25,850.00	$246,475.00	$0.00	$29,235.71	$789,646.59	$ 0.00	$146,945.40	$507,019.00	$786,011.28	$2,776,702.09	**$1,724,932.92**

**** Available Funds: 76758 and 76759 (State Loan reserve funds) (These columns are hidden)**
***** Starting FY 2017-18, Bldg Fund and PARS considered part of Reserves**

County Balances FY 2018-19 and Reserves Above Policy

Beginning balances:
(Note: Warrants requested in FP 12 for last fiscal year are not subtracted from Cash until FP 1 of the next year. They are instead recorded as "Vendors Payable")

														(using FY 2018-19 Reserve)
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NAME	CERBT	PARS (part of Oper Res)	Operations + 15% Cash Policy Reserve	Bldg Fund (part of Oper Res)	Operating Policy Reserve (25% less Bldg Fund and PARS)***	Federal Loan (GO Bonds CIP 2018	In-house Construction	Capital Improvements	Guernewood Project Escrow Funds	State Loan 58340	Capital and Debt Policy Reserve Annual Debt: $932,957 (county) + $99,000 (WA)	Cap One Bonds and Citizens Bank Loan Debt	Policy Reserve: (calc. FYE 2018)	$1,265,940
Fund			76751	76752	76753	76754	76755	76756	76757	76759	76761	76762	TOTAL at COUNTY ↓	Reserves Above Policy (PARS + COUNTY - GUERNEWOOD PK ESCROW)
Dep't			7106 0100	7106 0200	7106 0300	7106 0400	7106 0500	7106 0600	7106 0700	7106 0900	7106 1100	7106 1200		
FP1-Jul	$37,077.06	$204,586.92	$123,508.03	$10,850.00	$96,475.00	$491,931.25	$71,908.65	$266,473.85	$2,515.75	$146,863.42	$102,315.00	$674,243.49	$1,987,084.44	$923,215.61
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County Balances FY 2019-20 and Reserves Above Policy

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											TOTAL at COUNTY ↓	GRAND TOTAL: COUNTY + USDA + PARS/CERBT	FY 2019-20 Policy Reserves: $1,379,359 Reserves Above Policy
	$42,621.30	$214,170.83	$245,519.11	$25,850.00	$753,494.00	$29,235.71	$789,646.59	$146,945.40	$786,011.28	$105,662.08	$2,776,702.09	$3,139,156.30	**1,759,797.30**
NAME	**CERBT** (Contributions are part of Reserves)	**PARS** (Contributions are part of Reserves)	**Operations**	**Bldg Fund** (part of Oper Res)	**FY 2019-20 POLICY RESERVES: $1,379,359**	**In-house Construction**	**Capital Improvements**	**State Loan 58340**	**Cap One Bonds and Citizens Bank Loan Debt**	**USDA Bond Debt** (at WestAmerica)			
	CONTRIBUTIONS: $30,518	**CONTRIBUTIONS: $200,000**			**($1,122,991)**								
Fund			**76751**	**76752**	**76753**	**76755**	**76756**	**76759**	**76762**				
Dep't			7106 **0100**	7106 **0200**	7106 **0300**	7106 **0500**	7106 **0600**	7106 **0900**	7106 **1200**				
FP1-Jul	$42,621.30	$215,332.01	$295,519.11	$25,850.00	$753,494.00	$29,000.81	$724,549.83	$146,945.40	$786,011.28	$124,164.15	$2,761,370.43	$3,143,487.89	**1,764,128.89**
FP2-Aug	$42,621.30	$214,435.22	$10,519.11	$25,850.00	$1,122,991.00	$29,000.81	$629,178.16	$146,945.40	$211,963.07	$124,166.19	$2,176,447.55	$2,557,670.26	**1,178,311.26**
FP3-Sept													
FP4-Oct													
FP5-Nov													
FP6-Dec													
FP7-Jan													
FP8-Feb													
FP9-Mar													
FP10-Apr													
FP11-May													
FP12-Jun													
FP 13 (FINAL)													

**** Available Funds: 76758 and 76759 (State Loan reserve funds); 76754 (Fed Loan); 76757 (Guernewood Park); 76761 (Cap and Debt policy reserve) (These columns are hidden)**
***** Starting FY 2017-18, Bldg Fund and PARS considered part of Reserves; Starting FY 2019-20, CERBT is also part of reserves, but only the contributions (not earnings) to PARS and CERBT are included**

Various payoff schedules to pay off current PERS unfunded liability*

Approximate unfunded liability to address (FY 2018-19):	**$945,634***
Interest rate:	**7%**

			TOTAL PYMTS:
1	**Current Plan: We are 3 years into a 30-year payoff, adding add'l liabilities as accrued**	For now, $79,000/year but more in the first years, less in the later years. Total payments:	$2,130,000
2	**10 years**	$135,000/year	$1,347,000
3	**7 years**	$177,000/year	$1,229,000
4	**5 years**	$231,000/year	$1,154,000
5	**3 years**	$361,000/year	$1,081,000
6	**Staff recommendation**	$135,000/year for 7 years to reimburse Policy Reserve (0% interest after 2 years)	$976,828

**** Only considers <u>current</u> PERS UL, not future changes to the total.***