AGENDA

ADMINISTRATIVE AND FINANCE COMMITTEE MEETING
Santa Fe Irrigation District

Tuesday, September 8, 2020  9:00 a.m.

Please note revised start time

Held at Santa Fe Irrigation District
5920 Linea del Cielo, Rancho Santa Fe, California  92067

Due to the COVID-19 State of Emergency and pursuant waivers to certain Brown Act provisions under the Governor’s Executive Orders, meetings of the Board and Board Committees will be conducted via Zoom Meeting (webinar/teleconference) and there will be no physical location from which members of the public may participate. Instead, the public may listen to the meeting proceedings and provide public comment and comments on specific agenda items by following these instructions:

Please click the link below to join the webinar:
https://us02web.zoom.us/j/83386731067?pwd=V2paYnJDK0R1TVF2cUM0TkJHSHWc5dz09

Passcode: 944823

Or iPhone one-tap:
US: +16699009128,,83386731067#,,,,0#,944823# or
+13462487799,,83386731067#,,,,0#,944823#
Or Telephone:

Dial(for higher quality, dial a number based on your current location):
US: +1 669 900 9128 or +1 346 248 7799 or +1 253 215 8782 or +1 646 558 8656 or +1 301 715 8592 or +1 312 626 6799 or 888 475 4499 (Toll Free) or 877 853 5257 (Toll Free)

Webinar ID: 833 8673 1067

Passcode: 944823

International numbers available: https://us02web.zoom.us/u/kic0kR32m
Instructions for Making Public Comment: Members of the public who wish to address the Board of Directors under public comment or on specific agenda items may do so in one of the following ways:

- You can send written comments to the Board Secretary for receipt no later than 7:30 am on September 8, 2020 to be read during the appropriate portion of the meeting. Written comments must be limited to 300 words/ have a reading limit of 3 minutes for each comment and emailed to kjohnson@sfidwater.org, mailed to the attention of Kim Johnson, Board Secretary, SFID, P. O. Box 409, Rancho Santa Fe, CA 92067, or physically deposited in the District’s payment drop box located in the public parking lot at the District’s Administrative Office at or mail to 5920 Linea del Cielo, Rancho Santa Fe, California 92067.

- On Zoom via phone, you can also raise your hand by pressing *9 when to notify the moderator that you wish to speak during the current item.

These public comment procedures supersede the District’s standard public comment policies and procedures to the contrary.

CALL MEETING TO ORDER

ORAL COMMUNICATIONS
Opportunity for members of the public to address the Committee (Government Code Section 54954.3) Individuals may address the Committee regarding items not appearing on the posted agenda, which are within the subject matter jurisdiction of the Committee, at any time. Comments and inquiries pertaining to items listed on the agenda will be received during the deliberation of the agenda item. Speakers are asked to state their name, address, and topic, and to observe a time limit of three (3) minutes each. Members of the public desiring to address the Committee are asked to complete a speaker’s card, available at the table near the entrance and present it to the Board Secretary prior to the start of the meeting.

ACTION AND DISCUSSION ITEMS

1. Approval of August 11, 2020 Minutes (pages 4-6)

2. Directors' and General Manager’s Expense/Reimbursement (pages 7-8)


4. Review Proposed Updates to Santa Fe Irrigation District Reserve Policy and Reserve Levels and Recommend Board Approval (pages 10-29)

5. Review and Discuss Proposed Communication and Outreach to AMI Customers (pages 30-31)

6. Review and Discuss Revising Administrative and Finance Committee Meeting Time (page 32)

7. Consider Canceling October Administrative and Finance Committee Meeting (page 33)

REPORTS

8. Administrative Services Report (verbal)
9. Public Communications and Outreach Report (verbal)
   • Strategic Plan Workshop Outreach

10. General Manager’s Report (verbal)
    • GFOA Award

11. Committee Members’ Comments (verbal)

INFORMATION ITEMS - None

ADJOURN

Next Scheduled Administrative and Finance Committee meeting: Tuesday, November 10, 2020 @ 8:30 a.m.

Assistance for the disabled: If you are disabled in any way and need accommodation to participate in the meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.
Due to the COVID-19 State of Emergency and pursuant waivers to certain Brown Act provisions under the Governor’s Executive Orders, meetings of the Board and Board Committees will be conducted via Zoom Meeting (webinar/teleconference) and there will be no physical location from which members of the public may participate. Instead, the public may listen and/or view the meeting proceedings and provide public comment and comments on specific agenda items by following the posted instructions, including how to submit written comments for inclusion, instructions for viewing or listening to the meeting, and how to participate via Zoom. Additionally, these public comment procedures supersede the District’s standard public comment policies and procedures to the contrary.

PRESENT: Director Frank Creede, Director David Petree, General Manager Albert Lau, Executive Assistant Kim Johnson, Administrative Services Manager Seth Gates, Senior Accountant Robert Masterson, and Public Communications Officer Teresa Penunuri were present.

CALL MEETING TO ORDER

GM Lau called the meeting to order at 8:34 a.m.

ORAL COMMUNICATIONS

None

ACTION AND DISCUSSION ITEMS

1. APPOINTMENT OF COMMITTEE CHAIR

   GM Lau presented the item, noting that because of a change in Committee members, it was appropriate to select a Committee Chair.

   Director Petree accepted Director Creede’s nomination to serve as Committee Chairman.

2. APPROVAL OF MARCH 10, 2020 MINUTES

   The Committee approved the minutes as presented.
3. DIRECTORS’ AND GENERAL MANAGER’S EXPENSE/REIMBURSEMENT

The Committee reviewed and approved the reports as submitted.

4. MONTHLY INVESTMENT TRANSACTION REPORT

The Committee reviewed and approved the report as submitted.

5. AUTOMATED METERING PROGRAM

ASM Gates presented the item, provided a background of the Automated Metering Program, and responded to questions from the Committee.

There was no action requested or required of the Committee.

REPORTS

6. ADMINISTRATIVE SERVICES REPORT
   - COVID-19 Financial Update

   ASM Gates provided an update of potential financial impacts related to the COVID-19 pandemic; reported that the District is engaged with Corollo regarding the January, 2021 rate increase; and reported that IT security training, including generation of “Phishing” emails is ongoing and encouraged Directors to not open any email which appears suspicious. He added that if any “testing” emails are opened, it will generate additional training which must be completed.

7. PUBLIC COMMUNICATIONS AND OUTREACH REPORT

PCO Penunuri reported she is developing a formal plan for outreach activities and timelines for completion which will be presented to the Board at a future meeting. She also noted one of her priorities is developing a plan to encourage customer participation in the AMI Portal. Ms. Penunuri discussed hosting a virtual Q&A session for Sensus portal registration assistance, establishing a “Value of Water” campaign, and noted she is reviewing the District webpage, page by page, adding the District has the opportunity to upgrade the webpage later in 2020.

8. GENERAL MANAGER’S REPORT

GM Lau reported the Strategic Planning process will be resuming and looks forward to working with the full Board to develop strategic initiatives for the District.

9. COMMITTEE MEMBERS’ COMMENTS - None
ADJOURN

Chairman Petree adjourned the meeting at 9:56 a.m.

_________________________________
David Petree, Chairman
### Santa Fe Irrigation District
#### Board of Directors Expenses
Paid During the Month of August 2020 and Fiscal Year-to-Date

<table>
<thead>
<tr>
<th></th>
<th>Per Diem Payments</th>
<th>Mileage &amp; Parking</th>
<th>Travel &amp; Meetings</th>
<th>Total</th>
<th>For July 1st to Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creede</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Hogan</td>
<td>300.00</td>
<td>0.00</td>
<td>0.00</td>
<td>300.00</td>
<td>600.00</td>
</tr>
<tr>
<td>King</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Menshek</td>
<td>150.00</td>
<td>0.00</td>
<td>0.00</td>
<td>150.00</td>
<td>450.00</td>
</tr>
<tr>
<td>Petree</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Board</th>
<th>Committee</th>
<th>Other</th>
<th>Total</th>
<th>For July 1st to Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hogan</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>King</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Menshek</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Petree</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

* Compensated days of service may represent multiple meetings per day.

**Total**

$450.00 $0.00 $0.00 $450.00 $1,050.00
Investment Transaction Report for August 2020

The following is a list of the month’s investment activity

<table>
<thead>
<tr>
<th>Security/Investment Pool</th>
<th>Settlement Date</th>
<th>Activity</th>
<th>Yield to Maturity</th>
<th>Maturity Date</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Investment Funds*

<table>
<thead>
<tr>
<th></th>
<th>As of 7/31/20</th>
<th></th>
<th>As of 8/31/20</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund (LAIF)</td>
<td>25,228,397</td>
<td>25,228,397</td>
<td></td>
<td></td>
</tr>
<tr>
<td>San Diego County Treasurer’s Pool **</td>
<td>4,461,388</td>
<td>4,461,388</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California Asset Management Program (CAMP)</td>
<td>709,306</td>
<td>709,486</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$30,399,091</td>
<td></td>
<td>$30,399,271</td>
<td></td>
</tr>
</tbody>
</table>

Distribution of Investments as of August 31, 2020

- LAIF 83.0%
- CAMP 2.3%
- SD County Pool 14.7%

*May include accrued interest not available currently for withdrawal
** Not available at time of publication
DATE: September 8, 2020

TO: Administrative and Finance Committee

FROM: General Manager

SUBJECT: Review Proposed Updates to Santa Fe Irrigation District Reserve Policy and Reserve Levels and Recommend Board Approval

RECOMMENDATION:

It is the Staff recommendation that the Administrative and Finance Committee:

1. Review and Discuss the Proposed Santa Fe Irrigation District Reserve Policy and Reserve Levels; and

2. Recommend Board Approval of the Revised Policy and Reserve Levels; and

3. Take other action as appropriate.

BACKGROUND:

The Santa Fe Irrigation District Board of Directors (Board) established a Reserve Policy (Policy) in January 2010, that designated one restricted and three unrestricted reserve funds for the District. These reserves were established in accordance with best financial practice to ensure funding for capital investment, maintain working capital, and to provide financial stability for the District. Best practice dictates the need to review a reserve policy every three to five years. Additionally, Staff committed to bring a comprehensive discussion on District reserves during the cost-of-service process for review and potential modification(s), including establishment of a reserve to account for varying levels of local water.

District Staff presented to the Board on August 20, 2020 a proposed Policy with revisions based on best practices and comparable agency guidelines, in addition to recommended reserve levels (to see the basis for these original recommendations, please review the Staff report from the August 20th Board Meeting). The Board provided input to Staff on this proposed Policy at this meeting, which have been incorporated into the recommendations included in this report.

DISCUSSION:

Input received from the Board at the August 20th Board Meeting was primarily based on the proposed addition of the Local Water Reserve. Staff have made modifications to this proposed reserve based on this input received. Additionally, for greater discussion purposes on where to set each reserve’s balance, Staff have developed three separate scenarios for Committee review that are potential impacts the District faces that would necessitate utilization of reserve(s) set out in the Policy.
Local Water Reserve

The Local Water Reserve (Reserve) was proposed to be established based on Board input during the District’s cost-of-service development to segregate revenues generated by excess local water above the level projected during the rate setting process. These revenues are generated primarily by single-family residential customers who utilize water in tiers 3-5, but are also generated by other permanent (no temporary meters, fire service) potable water customers. Single-family residential tiers 3-5 are all imported water from the San Diego County Water Authority (SDCWA), beginning at 33 hundred cubic feet (HCF) and above per bi-monthly billing period. Other potable water customers (multi-family, commercial, agriculture, and irrigation) pay a uniform rate per HCF that includes a nominal amount of local water in their rate calculation.

The language proposed in the Policy presented to the Board on August 20th described the Reserve’s intention as:

*The Local Water Fund is an Unrestricted Fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than employed to set potable water rates for customers. Any funds deposited into the reserve are intended to be utilized during subsequent cost-of-service planning to offset imported water costs.*

Additionally, the designation of expenses outlined in this proposed Policy included “*any other local water use as determined by the Board.*” The Board input received by Staff during this meeting was that this language for the Reserve was too ambiguous. The Policy language should be more clear about its intention, if funded, to utilize the Reserve balance to offset imported water costs for customers paying imported water prices when local water exceeds projected levels. Based on this input, Staff has proposed the revision of the Reserve’s intention to:

*The Local Water Fund is an Unrestricted Fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than employed to set potable water rates for customers. Any funds deposited into the reserve are intended to be utilized: 1. during subsequent cost-of-service development to offset total imported water costs for all permanent potable water customers in the District proportionate in a way that is consistent with cost-of-service principals; or 2. to offset annual imported water cost increase(s) from SDCWA that are passed on to District customers.*

The reference to “*any other local water use as determined by the Board*” in the designation of expenses has also been removed to reinforce the intent of the Reserve to be utilized only for the offset of imported water costs.

Reserve Scenarios

Staff have developed a number of scenarios that face the District, which would necessitate the District to utilize reserve funds in addition to other mitigating measures that may be available such as proceeds from insurance claims and / or reduction or postponement of operating and capital expenditures.
These scenarios include:

1. A 3-year drought that impacts local water yield & forces a mandatory reduction in District consumption from the State of California;
2. A wildfire that spreads to structures in the District, reducing the number of accounts by 10% for three years during rebuild;
3. An earthquake that impacts the District’s treatment plant, preventing the ability to treat local or SDCWA untreated water sources.

Scenario 1 – Extended Local Drought Conditions

The region has faced significant drought in the past that not only impacted the amount of local rainfall & resulting yield in Lake Hodges, but resulted in mandatory water restrictions imposed by the State of California. With the proposed policy revisions, the Rate Stabilization Reserve would set aside debt service (of which, the District currently has none) in addition to an amount of funding to replace local water and provide funding due to a reduction in water purchases.

In the last cost-of-service, the District utilized an estimated yield of 2,500 AF of local water yield to set rates based on a conservative level of long-run yield. However, in FY14 – FY16, the District averaged approximately 1,400 AF of local water yield from Lake Hodges. Utilizing this example, this results in an annual variance of approximately 1,100 AF that would need to be replaced with imported water. If this were to happen outside of the District’s rate setting process, all else equal, this amount would need to be made up with rate stabilization funds. Annually, based on current SDCWA prices and net of any savings for pumping costs for local water, this would necessitate utilization of approximately $1.0 million in rate stabilization funds, as illustrated as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SDCWA - untreated water</td>
<td>$ 1,108</td>
<td>6,144</td>
<td>$ 6,807,109</td>
<td>7,238</td>
<td>$ 8,019,261</td>
<td>$ 1,212,152</td>
</tr>
<tr>
<td>Local water savings</td>
<td>$ 300</td>
<td>3,000</td>
<td>$ 900,000</td>
<td>1,906</td>
<td>$ 715,839</td>
<td>(184,161)</td>
</tr>
</tbody>
</table>

9,144 $ 7,707,109 9,144 $ 8,735,100 $ 1,027,991

Additionally, during times of drought, the State of California has mandated water restrictions. In 2015, the District faced a 36% reduction. Even assuming a modest 5% reduction, this amounts to approximately $1.0 million per year in lost revenues ($20.2 million FY21 variable water sales budget X 5%). This assumes that the Board decides to not implement demand reduction rates equal to 5% or assumes a 10% reduction level with a Board action to utilize rate stabilization funding to offset half of this price increase to customers.

Combining the loss of local water and these water restrictions, the annual rate stabilization use would be approximately $2.0 million, and a 3-year cycle would be approximately $6.0 million.

Scenario 2 – Regional Wildfire Event

The District has faced a number of wildfires in the past, including most recently the Cedar / Paradise fires of 2003 and the Witch Creek Fire of 2007. With the ever growing threat of wildfire in California & the amount of fuel from vegetation during dry months in the District, the unfortunate prospect of a significant event grows.
With the assumption that 10% of potable water accounts will be lost (which matches losses incurred by Padre Dam Municipal Water District during the Witch Creek Fire) and will take 3 years to return to regular water service (1 year for insurance claim processing and 2 years for permitting / design / construction), high demands will be placed on the Operating and / or Rate Stabilization Reserves to make up the incremental revenue losses. With approximately 6,500 potable water customers, this represents a loss of 650 customer’s variable water sales and fixed charge revenues.

The District’s approximate average bi-monthly potable water bill is $500, with an approximate average of a 1” meter. Excluding any future rate increases beyond FY21, this amount of loss for 650 customers is approximately $2.5 million on an annual basis including fixed charges. The total loss for three years would be approximately $7.3 million. This loss is illustrated as follows:

| Scenario 3 – Significant Natural Disaster Resulting in Significant Impacts to R.E. Badger Filtration Plant |
|---|---|---|---|---|
| Variable Water Sales Lost | 650 | $500 | - | 6 | $1,950,000 |
| Fixed Meter Revenue Lost | 650 | - | $127 | 6 | $495,300 |

| Total 1 Year Revenue Loss | $2,445,300 |
| Total 3 Year Revenue Loss | $7,335,900 |

Southern California experiences regular, low level seismic events. However, the possibility of a large scale event continues to exist from local faults in addition to other larger faults. A large earthquake could have extensive impacts on assets throughout the District’s service territory that would require a significant level of capital investment for repairs. For this scenario, Staff will look at potential impacts just due to damage to the R.E. Badger Filtration Plant and its ability to serve customers treated water. Assuming a significant seismic event impacts the District’s sedimentation basis and clearwell and requires significant repair / replacement, the District would incur the unanticipated capital costs of repair / replacement of $10 million (assumed conservative amount) and would be required to replace all local and untreated water from SDCWA with treated water from SDCWA.

The $10 million in capital costs would require the District to significantly delay future capital improvement projects to enable utilization of existing fund balance within the Capital Improvement and Replacement Fund to expedite these repair / replacement contracts (debt funding timelines would add an extra 4-6 months). Assuming these contracts could be significantly expedited, the minimum timeline that the District would have to purchase treated water to replace all sources would be 12 months. A breakout of water sources, their price, and resulting purchase totals for existing sources & for a scenario of having to purchase all treated water for 12 months are as follows:
This would create an unanticipated financial impact of approximately $5.5 million that will be placed on the Operating Reserve and/or the Rate Stabilization Reserve.

CONCLUSION

Staff is requesting the Committee review and recommend to the Board approval of the Policy as presented, including updates to the Local Water Reserve. Additionally, Staff is requesting the Committee recommend approval of the amounts for each reserve to be set aside.

FISCAL IMPACT:

Though there is no immediate fiscal impact attributable to this item, a District Policy will define Board approved obligations for funding of individual reserves and communicate financial sustainability goals.

Prepared by: Seth M. Gates, Administrative Services Manager
Approved by: Albert C. Lau, P.E., General Manager

Attachment A: Santa Fe Irrigation District Proposed Reserve Policy – Clean Copy
Attachment B: Santa Fe Irrigation District Proposed Reserve Policy – Redline Copy
Attachment C: Santa Fe Irrigation District Proposed Reserve Levels

<table>
<thead>
<tr>
<th>Water Source</th>
<th>Price Per FY21 Budget Cost Effective</th>
<th>Scenario 3 Cost Effective</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Water - Lake Hodges¹</td>
<td>$300 3,000 $900,000 365,135</td>
<td>$ (534,865)</td>
<td></td>
</tr>
<tr>
<td>SDCWA - untreated water</td>
<td>$1,108 6,144 $6,807,109 -</td>
<td>$ (6,807,109)</td>
<td></td>
</tr>
<tr>
<td>SDCWA - treated water</td>
<td>$1,401 261 $365,381 9,404</td>
<td>$12,810,184</td>
<td></td>
</tr>
</tbody>
</table>

¹ variance in price is for pumping costs, continued costs are for Lake Hodges O&M the District is obligated to
SANTA FE IRRIGATION DISTRICT

RESERVE FUNDS POLICY
SANTA FE IRRIGATION DISTRICT
RESERVE FUNDS POLICY

1. Policy Statement

A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, and debt service needs. Through planning and undertaking regular cost-of-service review, the Santa Fe Irrigation District (District) will at all times strive to have sufficient funding generated from current revenues to meet its operating expenditures, pay-go for capital projects, and debt service cost obligations. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. This Reserves Funds Policy outlines specific accounts to meet these planned and unforeseen obligations.

The Board of Directors (Board) may designate specific fund accounts and maintain minimum fund balances consistent with statutory obligations that it has determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure the District has sufficient funds to meet current and future needs. The Board will annually review and approve reserve amounts for each fund at the completion of the District annual audit.

2. Definitions

There are two types of net Funds:

I. RESTRICTED FUNDS: Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.

II. UNRESTRICTED FUNDS: These funds have no externally imposed use restrictions. The use of unrestricted funds is at the discretion of the Board. Unrestricted funds are designated for a specific purpose, which is determined by the Board. The Board also has the authority to redirect the use of these funds as the needs of the District change.


The District will maintain operating and capital funds in designated accounts. The target fund balances are considered the minimum necessary to maintain the District’s credit worthiness and adequately provide for:

- Compliance with applicable statutory requirements
- Financing of future capital facilities
- Cash flow requirements
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Contingencies or unforeseen operating or capital needs

Through a variety of policy documents and plans, including the District Administrative Code, District Master Plans, Long Range Financial Plans, and District Strategic Plan, 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 is to link what must be accomplished with the necessary resources to successfully do so.

The District has established and will maintain the following Fund accounts:

- Capacity Charge
- Capital Improvement and Replacement
- Operating
- Rate Stabilization

Local Water Actual fund balances will be reviewed on an annual basis at the completion of the District’s annual audit to reconcile the fund balances and assess the District’s financial capacity to accomplish identified activities and projects.

The minimum target balance established for each fund represents the baseline financial condition that is acceptable to the District from a risk management and financial planning perspective. Maintaining funds at appropriate levels is an ongoing business process that consists of a periodic assessment of revenues and expenditure levels. This assessment includes (either alone or in combination with each other), but is not limited to, a review of fees and charges, water usage, capital financing methods, rate of return on investment of funds, and levels of capital expenditures. A maximum balance is established for each fund as a way to ensure that the District may prioritize capitalization of each reserve as the Board may see as necessary and prudent, while not holding excess monies that may unduly impact ratepayers.

4. Santa Fe Irrigation District Funds

I. RESTRICTED FUNDS

a. **Capacity Charge Fund:** The Capacity Charge Fund is a Restricted Fund governed by state law. The District collects capacity charge revenue and allocates expenditures in accordance with Government Code Section § 66013.

**Source of Funds:**
- Prior year ending balance carried forward
- Interest income on Fund balance
- Capacity Charge revenues

**Designation of Expenses:**
- Growth/ expansion related Capital Improvements
- System upgrades/enhancements

II. UNRESTRICTED FUNDS

a. **Capital Improvement and Replacement Fund:** The Capital Improvement and Replacement Fund is an Unrestricted Fund, which is designated by the Board for capital improvements to meet regulatory requirements, system reliability, facility replacement projects, and future infrastructure upgrades, among other items. These capital improvements are identified in the Asset Management Master Plan (“AMMP”) and outlined in the District’s (including joint facilities) ten-year Capital Improvement Program. The funds are accumulated and drawn down in a manner consistent with this Policy. The Board reviews utilization and funding of the Capital Improvement and Replacement Fund during the District’s annual budget process and updated during District mid-year projections. It is the Board’s intent to annually deposit all property tax revenues and an amount equal to the District’s total annual depreciation and amortization into the fund for pay-go of capital expenditures, in combination with any additional amount(s) as determined by the Board.

**Source of Funds:**
- Prior year ending balance carried forward
- Allocation of funds by Board action
- Annual contribution from operating revenue in an amount equal to depreciation and amortization expense
- San Dieguito Water District (SDWD) contributions – RE Badger capital expenses
- Interest income from any of the unrestricted funds
- Property tax revenue

**Designation of Expenses:**
- Capital improvement projects
- Capital repairs and replacement projects
- Major equipment acquisitions
- Office fixtures and furnishings, computer equipment and collateral items
- Emergency capital repairs and replacement

**Target Fund Balance:** The Capital Improvement and Replacement Fund target balance shall not exceed 100% of the total of the ten-year Capital Improvement Program (CIP) costs as identified in the Asset Management Master Plan. The Capital Improvement Fund target balance shall at all times equal or exceed 100% of the Pay-Go portion of the current fiscal year’s CIP, 50% of the Pay-Go portion of the following fiscal year’s CIP, and 25% of the Pay-Go portion of the succeeding fiscal year’s CIP.

Pay-Go is defined as the portion of capital expenditures that are not funded through debt issuance.
b. **Operating Fund**: The Operating Fund is an Unrestricted Fund that is designated by the Board to maintain working capital for current operations in the event of unforeseen circumstances. Utilization of the operating fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

**Source of Funds:**
- Prior year ending balance carried forward
- Allocation of funds by Board action
- Interest Income from any of the unrestricted funds
- Net operating income

**Designation of Expenses:**
- Cash flow requirements
- Transfers to Rate Stabilization Fund, Capital Improvement and Replacement Fund, or Working Capital Fund

**Target Fund Balance**: The Operating Fund target balance shall be a minimum of sixty (60) days and a maximum of one hundred and twenty (120) days of the current fiscal year’s operating budget, less depreciation / amortization and any portion of costs paid by SDWD.

**Rate Stabilization**: The Rate Stabilization Fund is an Unrestricted Fund utilized to avoid unacceptable rate increases in combination with a cost-of-service study. Additionally, the fund may be utilized to accommodate a temporary reduction in revenues or increase in expenses such as (but not limited to) short term reductions in water sales and / or the purchase of imported water due to lack of local water. This fund may also be utilized to maintain compliance with any indebtedness obligations. Utilization of the rate stabilization fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

**Source of Funds:**
- Prior year ending balance carried forward
- Allocation of funds by Board action
- Net operating income
- Interest income from any of the unrestricted funds
- Transfers from Local Water Fund

**Designation of Expenses:**
- Provide operating revenue to offset unacceptable rate increases
- Offset water sales revenue loss
- Purchase of additional imported water to offset lack of local water
- Compliance with debt service obligations
- Transfers to Local Water Fund

**Target Fund Balance**: The Rate Stabilization Fund target balance shall not fall below the sum of the following:
• One year of principal and interest payments on indebtedness
• 100% of the cost to replace the current fiscal year’s budget for local water with San Diego County Water Authority (SDCWA) untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation

And shall not at any time exceed the sum of the following:
• Two years of principal and interest payments on indebtedness
• 200% of the cost to replace the current fiscal year’s budget for local water with SDCWA untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
• 25% of the current fiscal year’s budgeted variable water sales revenue

d. **Local Water:** The Local Water Fund is an Unrestricted Fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than employed to set potable water rates for customers. Any funds deposited into the reserve are intended to be utilized: 1. during subsequent cost-of-service development to offset total imported water costs for all permanent potable water customers in the District proportionate in a way that is consistent with cost-of-service principals; or 2. to offset annual imported water cost increase(s) from SDCWA that are passed on to District customers.

Source of Funds:
• Savings on purchased water from SDCWA as compared to projections utilized to set potable water rates
• Transfers from Rate Stabilization Fund

**Designation of Expenses:**
• Utilization to offset imported potable water costs during cost-of-service development
• Transfer to Rate Stabilization Fund

**Target Fund Balance:** There is no minimum or maximum target balances for this fund.

e. **Working Capital:** The Working Capital Fund is an Unrestricted Fund intended to provide sufficient cash flow for day-to-day operations of the District to ensure that operating and rate stabilization funds designated by this Policy are not utilized without Board approval. Utilization and deposits to the fund during the fiscal year will be managed by Staff; however, any utilization of working capital to balance the budget will be approved by the Board during the annual budget adoption process.

**Target Fund Balance:** The Working Capital target balance shall be a minimum of forty-five (45) days and a maximum of one hundred and twenty (90) days of the current fiscal year’s operating budget, less water purchases, depreciation / amortization, and any portion of costs paid by SDWD.
5. **Delegation of Authority**

The Board of the Santa Fe Irrigation District has sole authority to amend or revise the District’s Reserve Funds Policy. Management responsibility for the Reserve Funds Policy is hereby delegated to the General Manager, who through approval of this Policy has established written procedures for the management of the District’s Funds.
SANTA FE IRRIGATION DISTRICT

RESERVE FUNDS POLICY

January 2010
1. **Policy Statement**

A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. Through planning and undertaking regular cost-of-service review, the Santa Fe Irrigation District (District) will at all times strive to have sufficient funding available generated from current revenues to meet its operating expenditures, pay-go for capital projects, and debt service cost obligations. Funds will be accumulated and maintained to allow the District to fund expenditures in a manner consistent with all District Master Plans and avoid significant rate fluctuations due to changes in cash flow requirements. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. This Reserves Funds Policy outlines specific accounts to meet these planned and unforeseen obligations.

The Board of Directors (Board) may designate specific fund accounts and maintain minimum fund balances consistent with statutory obligations that it has determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure the District has sufficient funds to meet current and future needs. The Board of Directors will annually review the level of funds and approve reserve amounts for each fund at the completion of the District annual audit.

2. **Definitions**

There are two types of net Funds:

I. **RESTRICTED FUNDS**: Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.

II. **UNRESTRICTED FUNDS**: These funds have no externally imposed use restrictions. The use of Unrestricted Funds is at the discretion of the Board of Directors. Unrestricted Funds are designated 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 funds as the needs of the District change.

3. **General Provisions**

The District will maintain operating and capital funds in designated accounts. The target fund balances are considered the minimum necessary to maintain the District’s credit worthiness and adequately provide for:
• Compliance with applicable statutory requirements
• Financing of future capital facilities
• Cash flow requirements
• Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
• Contingencies or unforeseen operating or capital needs

Through a variety of policy documents and plans, including the District Administrative Code, District Master Plans, Long Range Financial Plans, and District Strategic Plan, the Board of Directors has set forth a number of long-term goals for the District. A fundamental purpose of the District’s policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so.

The District has established and will maintain the following Fund accounts:

• Capacity Charge
• Capital Improvement and Replacement
• Operating
• Rate Stabilization
• Local Water

Actual fund balances will be reviewed on an annual basis at the close of the fiscal year and the completion of the District’s annual audit to reconcile the fund balances and assess the District’s financial capacity to accomplish identified activities and projects. In the event the Rate Stabilization Fund or Operating Fund balances exceed the established maximum targets, excess monies will be transferred annually into the Capital Improvement Fund. In the event the Capital Improvement Fund balance exceeds the established maximum target, the Board of Directors will make a determination regarding the reallocation of excess monies.

The minimum target balance established for each fund represents the baseline financial condition that is acceptable to the District from a risk management and financial planning perspective. Maintaining funds at appropriate levels is an ongoing business process that consists of a periodic assessment of revenues and expenditure levels. This assessment includes (either alone or in combination with each other), but is not limited to, a review of fees and charges, water usage, capital financing methods, rate of return on investment of funds, and levels of capital expenditures. A maximum balance is established for each fund as a way to ensure that the District may prioritize capitalization of each reserve as the Board may see as necessary and prudent, while not holding excess monies that may unduly impact ratepayers.

The Board of Directors shall approve any reallocation of funds or any transfers among Funds, including an annual reconciliation at the close of the fiscal year.

4. Santa Fe Irrigation District Funds
I. RESTRICTED FUNDS

a. Capacity Charge Fund: The Capacity Charge Fund is a Restricted Fund governed by state law. The District collects capacity charge revenue and allocates expenditures in accordance with Government Code Section § 66013.

Source of Funds:
- Prior year ending balance carried forward
- Interest income on Fund balance
- Capacity Charge revenues

Designation of Expenses:
- Growth/expansion related Capital Improvements
- System upgrades/enhancements

II. UNRESTRICTED FUNDS

a. Capital Improvement and Replacement Fund: The Capital Improvement and Replacement Fund is an Unrestricted Fund, which is designated by the Board of Directors for capital improvements to meet regulatory requirements, system reliability, facility replacement projects, and future infrastructure upgrades among other items. These capital improvements are identified in the Asset Management Master Plan (“AMMP”) and outlined in the District’s (including joint facilities) ten-year Capital Improvement Program. The funds are accumulated and drawn down in a manner consistent with this Policy. The Board of Directors approves reviews utilization and funding of the Capital Improvement and Replacement Funds during the District’s annual budget process and updated during District mid-year projections. It is the Board’s intent to annually deposit all property tax revenues and an amount equal to the District’s total annual depreciation and amortization into the fund for pay-go of capital expenditures, in combination with any additional amount(s) as determined by the Board.

Source of Funds:
- Prior year ending balance carried forward
- Allocation of funds by Board of Directors’ action
- Annual contribution from Operating revenue in an amount equal to depreciation and amortization expense
- San Dieguito Water District (SDWD) contributions – RE Badger Capital expenses
- Interest income from any of the Unrestricted Funds
- Property tax revenue

Designation of Expenses:
- Capital Improvement projects
- Capital repairs and Replacement projects
- Major equipment acquisitions
Office fixtures and furnishings, computer equipment and collateral items
Emergency capital repairs and replacement

Target Fund Balance: The Capital Improvement and Replacement Fund target balance shall not exceed 100% of the total of the ten-year Capital Improvement Program (CIP) costs as identified in the Asset Management Master Plan. The Capital Improvement Fund target balance shall at all times equal or exceed 100% of the Pay-Go portion of the current fiscal year’s CIP, 50% of the Pay-Go portion of the following fiscal year’s CIP, and 25% of the Pay-Go portion of the succeeding fiscal year’s CIP.

Pay-Go is defined as the portion of capital expenditures that are not funded through debt issuance.

b. Operating Fund: The Operating Fund is an Unrestricted Fund that is designated by the Board of Directors to maintain working capital for current operations and to meet routine cash flow needs in the event of unforeseen circumstances. Utilization of the operating fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

Source of Funds:
- Prior year ending balance carried forward
- Allocation of funds by Board of Directors’ action
- Transfers from Rate Stabilization Fund
- Interest Income from any of the unrestricted funds
- Net operating income

Designation of Expenses:
- Cash flow requirements
- Transfers to Rate Stabilization Fund, or Capital Improvement and Replacement Fund, or Working Capital Fund
- Debt Service

Target Fund Balance: The Operating Fund target balance shall be a minimum of sixty (60) days and a maximum of ninety-one hundred and twenty (9120) days of the current fiscal year’s operating budget, less depreciation/amortization and any portion of costs paid by SDWD.

e. Rate Stabilization: The Rate Stabilization Fund is an Unrestricted Fund utilized to avoid unacceptable rate increases in combination with a cost-of-service study. Additionally, the fund may be utilized to accommodate a temporary reduction in revenues or increase in expenses such as (but not limited to) and fund unanticipated operating expenditures, short term reductions in water sales and or the purchase of imported water due to lack of local water. This fund may also be utilized to maintain compliance with any indebtedness obligations.
Utilization of the rate stabilization fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

Source of Funds:
- Prior year ending balance carried forward
- Allocation of funds by Board of Directors’ action
- Net operating income
- Interest income from any of the unrestricted funds
- Transfers from Local Water Fund

Designation of Expenses:
- Transfers to Operating Fund or Capital Improvement and Replacement Fund
- Provide operating revenue to offset unacceptable rate increases
- Contingencies, unforeseen operating needs or disruptions to revenues or service
- Offset water sales revenue loss
- Purchase of additional imported water to offset lack of local water
- Compliance with debt service obligations
- Transfers to Local Water Fund

Target Fund Balance: The Rate Stabilization Fund target balance shall not exceed the sum of the following:
- 100% of the current fiscal year’s budgeted property tax revenues
- One year of principal and interest payments on indebtedness
- 100% of the cost to replace the current fiscal year’s budget for local water with San Diego County Water Authority (SDCWA) untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
- 25% of the current fiscal year’s budgeted wholesale water costs

And shall not at any time be less than the sum of the following:
- 8% of the current fiscal year’s budgeted property tax revenues
- Two years of principal and interest payments on indebtedness
- 10% of the current fiscal year’s budgeted variable water sales revenues
- 200% of the cost to replace the current fiscal year’s budget for local water with SDCWA untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
- 525% of the current fiscal year’s budgeted variable water sales revenue

Local Water: The Local Water Fund is an Unrestricted Fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than employed to set potable water rates for customers. Any funds deposited into the reserve are intended to be utilized: 1. during subsequent cost-of-service development to offset
total imported water costs for all permanent potable water customers in the District proportionate in a way that is consistent with cost-of-service principals; or 2. to offset annual imported water cost increase(s) from SDCWA that are passed on to District customers.

Source of Funds:
- Savings on purchased water from SDCWA as compared to projections utilized to set potable water rates
- Transfers from Rate Stabilization Fund

Designation of Expenses:
- Utilization to offset imported potable water costs during cost-of-service development
- Transfer to Rate Stabilization Fund

Target Fund Balance: There is no minimum or maximum target balances for this fund.

e. Working Capital: The Working Capital Fund is an Unrestricted Fund intended to provide sufficient cash flow for day-to-day operations of the District to ensure that operating and rate stabilization funds designated by this Policy are not utilized without Board approval. Utilization and deposits to the fund during the fiscal year will be managed by Staff; however, any utilization of working capital to balance the budget will be approved by the Board during the annual budget adoption process.

Target Fund Balance: The Working Capital target balance shall be a minimum of forty-five (45) days and a maximum of one hundred and twenty (90) days of the current fiscal year’s operating budget, less water purchases, depreciation / amortization, and any portion of costs paid by SDWD.

5. Delegation of Authority

The Board of Directors of the Santa Fe Irrigation District has sole authority to amend or revise the District’s Reserve Funds Policy. Management responsibility for the Reserve Funds Policy is hereby delegated to the General Manager, who through approval of this Policy has established written procedures for the management of the District’s Funds.
### Reserve Policy Recommendations

<table>
<thead>
<tr>
<th>FUND</th>
<th>Existing Policy</th>
<th>Proposed Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital and Replacement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Minimum 2 Maximum 2 Currently Funded 1</td>
<td>$14,332,100 $36,229,000</td>
<td>$14,332,100 $36,229,000</td>
</tr>
<tr>
<td>Operating</td>
<td></td>
<td></td>
</tr>
<tr>
<td>60 days operating expenses</td>
<td>$3,865,624</td>
<td>$3,865,624</td>
</tr>
<tr>
<td>90 days operating expenses</td>
<td>$5,798,436</td>
<td>$7,731,248</td>
</tr>
<tr>
<td>Rate Stabilization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8% current year property tax + 10% current year variable water sales + 5% current year wholesale water costs</td>
<td>$2,725,054 $12,093,482</td>
<td>$3,324,000 $11,700,977</td>
</tr>
<tr>
<td>100% current year property tax + 35% current year variable water sales + 25% current year wholesale water costs</td>
<td>$4,356,556</td>
<td>$4,334,595</td>
</tr>
<tr>
<td>Local Water</td>
<td>N/A</td>
<td>Board Determined</td>
</tr>
<tr>
<td>Working Capital**</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Unassigned Funds</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>TOTAL FUNDS 4</td>
<td>$30,452,505</td>
<td>$30,452,505</td>
</tr>
</tbody>
</table>

1 - reserve policy amounts reflect Board of Director adopted levels from December 2019
2 - reserve policy amounts reflect FY21 Budget required levels
3 - operating expenses for working capital fund do not include water purchases
4 - Total funds are as of August 1, 2020 (LAIF, SD County, CAMP, Union Bank, less outstanding payments)
DATE: September 8, 2020
TO: Administrative and Finance Committee
FROM: General Manager
SUBJECT: Review and Discuss Proposed Communication and Outreach to AMI Customers

RECOMMENDATION:

It is the Staff recommendation that the Administrative and Finance Committee:

1. Review and discuss the outline for AMI outreach and provide feedback to staff; and
2. Take other action as appropriate.

DISCUSSION:

The district recently completed phase five of the Advanced Metering Infrastructure project. Approximately 80 percent of the district has AMI installed and can sign up for the portal to view their consumption in real time. Currently, approximately 8 percent of customers with installed meters have signed up to use the portal. Customer engagement varies among statewide water districts and active outreach has been key to increasing sign-ups. Customer engagement is a critical component and benefit of the AMI installation and staff plans to launch a clear and concise outreach plan with the Board’s feedback.

Portal engagement offers a variety of benefits for the customer and the district such as the ability to set consumption thresholds, leak detection alerts, increased accuracy for billing, reduction in customer service calls and developing more effective behavioral efficiency programs to meet state regulations. This will be the first step in educating the customers about water use and efficiency in preparation for potential reductions to meet requirements of AB 1668 and SB 606, the Conservation as a California Way of Life legislation.

Outreach tactics include:

- Bill messages and inserts to customers
- Social media outreach
- How-to videos posted on website
- Virtual meetings specific to registration
- Messaging during existing landscape classes
- Partnering with local cities, public agencies, and associations

Staff will provide a presentation to review timing and launch of outreach and will solicit board feedback before moving forward.
FISCAL IMPACT:

The FY21 budget includes funds for outreach, including production and distribution of bill inserts and flyers.

Prepared by: Teresa Penunuri, Public Communications Officer
Approved by: Albert C. Lau, General Manager
DATE: September 8, 2020

TO: Administrative and Finance Committee

FROM: General Manager

SUBJECT: Review and Discuss Revising Administrative and Finance Committee Meeting Time

RECOMMENDATION:

It is the Staff recommendation that the Administrative and Finance Committee:

1. Review and discuss the current scheduled Administrative and Finance Committee meeting time; and

2. Propose an alternative later meeting time; and

3. Take other action as appropriate.

DISCUSSION:

This item has been agendized for this Committee’s review and discussion to minimize potential meeting conflicts for Directors.

Staff suggests rescheduling the Administrative and Finance Committee meetings to 9:00 a.m. from the current start time of 8:30 a.m.

FISCAL IMPACT:

There is no fiscal impact associated with the consideration of this item.

Prepared by: Kim Johnson, Executive Assistant
Approved by: Albert C. Lau, P. E., General Manager
DATE: September 8, 2020

TO: Administrative and Finance Committee

FROM: General Manager

SUBJECT: Consider Canceling October Administrative and Finance Committee Meeting

RECOMMENDATION

It is the Staff recommendation that the Administrative and Finance Committee:

1. Discuss and consider canceling the October 6, 2020 Administrative and Finance Committee meeting; and

2. Take other action as appropriate.

DISCUSSION

Director Petree will not be available for the October 6, 2020 Administrative and Finance Committee meeting. Because a quorum is required for a Committee meeting, staff is suggesting the Committee discuss and consider canceling the October meeting. At this time, there are no items anticipated for Committee consideration in October.

FISCAL IMPACT

There is no fiscal impact resulting from the review of this item.

Prepared by: Kim Johnson, Executive Assistant
Approved by: Albert C. Lau, P. E., General Manager