




Costa Mesa Sanitary District


....an Independent Special

District

Memorandum

To: Board of Directors

Via: Scott Carroll, General Manager 

From: Wendy H. Davis, Finance Manager 

Date: August 27, 2015

Subject: **Ordinance No. 108 – Amending Operations Code Section 4.03.020 – Operating Reserves**

Summary

The Board of Directors has reviewed with staff the District's reserves policies at the July 14, 2015 study session. Staff was directed to amend the existing Ordinance be brought back for Board adoption.

Staff Recommendation

That the Board of Directors adopt Ordinance No. 108.

Analysis

Staff has reviewed with the Board the need to increase the District's Operating Reserve Policy amounts to ensure that there is sufficient cash flow. Cash flow is a very important part of the District's reserve decisions since there must be sufficient money available to pay expenses during the five months when no assessments are received from the County of Orange.

Solid Waste: The District's current Operating Reserve policy amount is 15%. Staff is recommending that the Board increase the Operating Reserve to **30%**

Wastewater Fund: The District's current Operating Reserve policy amount is 10%. Staff is recommending that the Board increase the Operating Reserve to **25%**.

Strategic Plan Element & Goal



Protecting our community's health and the environment by providing solid waste and sewer collection services.
www.cmsdca.gov

This item supports achieving Strategic Element No. 7.0, *Finances*, by ensuring the short and long-term fiscal health of the District.

Legal Review

District Counsel has reviewed and approved Ordinance No. 108.

Environmental Review

Subject activity is exempt from the requirements of the California Environmental Quality Act (CEQA) (Public Resources Code Section 21000 et. seq.). Section 15300.4 of CEQA allows an agency while establishing its own procedures “to list those specific activities which fall within each of the exempt classes”, and the District has adopted “CEQA Guidelines and Implementing Procedures” that state on page 6 ““Projects” does not include C. Continuing administrative or maintenance activities.”

Financial Review

There is no fiscal impact to the District for adopting this ordinance. The reserves are a part of Retained Earning, so setting aside more money as “Operating Reserves” does not impact the budget.

Public Notice Process

Copies of this report are on file and will be included with the entire agenda packet for the August 27, 2015 Board of Directors study session at District Headquarters and on District’s website at www.cmsdca.gov.

Alternative Actions

1. Do not approve Ordinance No. 108.
2. Direct staff to report back with more information.

Attachments A: Ordinance 108

ORDINANCE NO. 108

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE COSTA MESA SANITARY DISTRICT REVISING THE DISTRICT'S OPERATING RESERVE REQUIREMENTS

WHEREAS, the District's Board has, consistent with sound management practice and upon advice of its Finance Manager, set the District's operating reserves at levels sufficient to withstand various contingencies that might occur; and

WHEREAS, the Board also desires to not set aside unnecessary surplus as that money has been paid by the ratepayers who are the Board's constituents; and

WHEREAS, the Board has recently reviewed those reserves and, upon the advice and recommendation of the Finance Manager, determined that they should be increased to adequately protect the District; and

WHEREAS, the Finance Manager has recommended, and the Board does hereby approve, those recommendations to raise those reserves as specified in this ordinance;

NOW, THEREFORE, the Board of Directors of the Costa Mesa Sanitary District does hereby **ORDAIN** as follows:

Section 1. That Section 4.03.010 of the Costa Mesa Sanitary District Operations Code is amended to read as follows:

"4.03.010 Summary. A summary of the District's Financial Policies includes the following principles:

(a) Operating Reserves: The District will maintain a minimum designated Reserve for Working Capital equal to 30% of its operating budget within its Solid Waste Fund and- 25% of its operating budget within its Wastewater Fund.

(b) Fairness and Equity: All customers of the District will pay their fair, equitable, and proportionate cost of the services provided by the District.

(c) Recurring Revenue Growth: Recurring expenditure increases should not be approved which exceed recurring revenue growth. Any new or expanded programs will be required to identify new funding sources and /or off - setting reductions in expenditures.

(d) Risk Management/Retention: The District will maintain appropriate reserves for general liability claims and other programs or self insured risk retention levels to meet statutory requirements and actuarially projected needs.

(e) Long Range Fiscal Perspective (Capital Expenditure Policy): The District will maintain a long -range fiscal perspective through the use of an Annual Operating Budget, Long Range Capital Improvement Program, and multi -year revenue and expenditure forecasting.

(f) Capital Improvements: Major capital improvement projects will be funded using the most financially prudent method available. Such methods include: 1) Traditional long -term financing (bond issues); 2) "Pay As You Go" financing (using recurring revenues only); 3) Combination of debt financing and "Pay As You Go" financing; and, 4) Using accumulated cash reserves in excess of policy requirements.

(g) Generally Accepted Accounting Principles: District staff shall comply with all generally accepted accounting principles promulgated by the state and federal government, regulatory agencies such as the Government Accounting Standards Board (GASB) and relevant professional associations such as the Government Finance Officers' Association (GFOA). Ord. 34, 2000"

Section 2. That Section 4.03.020 of the Costa Mesa Sanitary District Operations Code is amended to read as follows:

"4.03.020 Operating Reserves. This policy establishes a minimum level of Reserves for Working Capital within Operating Funds of the District. Operating Funds of the District consist of the Solid Waste Fund and the Liquid Waste Fund.

(a) Policy: The District will maintain a minimum designated Reserve for Working Capital equal to 30% of its operating budget within its Solid Waste Fund, and 25% of its operating budget within its Wastewater Fund.

(b) Operating Reserves Required: The Reserves for Working Capital for Operating Funds will be maintained at a level equal to 30% of its operating budget within its Solid Waste Fund, and 25% of its operating budget within its Wastewater Fund, for the fiscal year. The District has a period of negative cash flow for the first five months of the fiscal year until such time as the annual charges have been collected and remitted to the District. This level of operating reserve provides the District with the necessary liquidity and resources to cover this period of negative cash flow as well as unanticipated expenses. It is prudent for governmental entities to maintain operating reserves which constitutes a sound operating practice as determined by oversight bodies, professional organizations, bond rating agencies and bond insurance companies. The operating reserve may only be accessed under the following circumstances, and only with Board approval.

1. Federal /State budget cuts resulting in loss of grant funding;
2. Local revenue shortfalls due to a downturn in the local economy;
3. Increase in demand for specific services without another source of recovery;
4. Legislative or judicial mandates to provide new or expanded services or programs without new or fully off - setting revenues;
5. One -time Board approved expenditures;
6. Unexpected increases in inflation (Consumer Price Index); and,
7. Natural disasters (earthquakes, fires, or other general infrastructure failures).

If the operating reserves are required to be used, staff will incorporate a plan to restore the Reserves for Working Capital to 30% of the Solid Waste operating budget and 25% of the Liquid Waste operating budget as part of the subsequent year's proposed

budgets. Originally adopted by Ordinance 34, July 13, 2000; amended by Ordinance 71, September 18, 2008."

Section 3. Should any part, clause or section of this Ordinance be declared by any Court of competent jurisdiction to be invalid, the remaining provisions of this Ordinance shall nevertheless be and remain in full force and effect and the Board of Directors of the Costa Mesa Sanitary District of Orange County, California, hereby declares that each and every section, clause, provision or part of this Ordinance would have been adopted and made a part of this Ordinance without the adoption of any portion thereof and that the invalidity of any part or provision hereof shall not in any way affect the validity or enforcement of the remaining provisions of this Ordinance that may stand on their own.

Section 4. Pursuant to Health and Safety Code Sections 6490 and 6491.3, the Clerk shall cause this ordinance or a summary thereof to be published in a newspaper of general circulation printed and published in the District according to law.

PASSED and **ADOPTED** this th day of , 2015

Secretary

President

APPROVED AS TO FORM:

HARPER & BURNS LLP



District Counsel

STATE OF CALIFORNIA)
COUNTY OF ORANGE) SS
CITY OF COSTA MESA)

I, NOELANI MIDDENWAY, Clerk of the Costa Mesa Sanitary District, hereby certify that the above and foregoing Ordinance No. 108 was duly and regularly passed and adopted by said Board of Directors at a regular meeting thereof, held on the th day of , 2015 by the following votes:

AYES:

NOES:

ABSENT:

ABSTAIN:

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of the Costa Mesa Sanitary District, this ____th day of _____, 2015.

Clerk of the Costa Mesa Sanitary District