



November 23, 2020

Boards of Directors
County Sanitation District No. 27 and
Newhall Ranch Sanitation District
of Los Angeles County

Directors:

The enclosed consolidated agenda includes the following items for the regular meetings of the Boards of Directors of District No. 27 and Newhall Ranch Sanitation District meeting Tuesday, December 8, 2020.

1. Certificate of Presiding Officer/Chairperson Pro Tem. (3 and 5) The new Chair and Chair pro tem of the Board of Supervisors automatically become the Chairperson and Chairperson pro tem of the Board of Directors of these Sanitation Districts.

2. Minutes. (3 and 5) Copies of the minutes have been provided to each of the Directors.

3. District Expenses. (3 and 5) Local Districts' expenses represent costs incurred for operations, maintenance, and capital projects that are the sole responsibility of the individual District. Each District's share of allocated expenses represents its proportionate share of expenditures made by District No. 2, the Administrative District, on behalf of the individual districts that are parties to the Joint Administration Agreement. That agreement provides for the joint administration and technical support of the 24 County Sanitation Districts of Los Angeles County (the "Districts"), and requires District No. 27 and Newhall Ranch Sanitation District to each pay 0.01 percent of the joint administration costs. A listing of Districts' payments and previously approved budgets can be found on the Districts' website at lacsd.org/financial-documents. This item is consistent with the Districts' Guiding Principle of commitment to fiscal responsibility and prudent financial stewardship.

District No. 27 –

Local District Expenses:	
Operations & Maintenance (O & M)	\$ 37,307.07
Capital	31,377.00
Allocated Expenses:	
Joint Administration	1,259.36
Total Expenses	<u>\$ 69,943.43</u>

Newhall Ranch Sanitation District –

Local District Expenses:	
Operations & Maintenance (O & M)	\$ 41,895.02
Capital	35,911.02
Allocated Expenses:	
Joint Administration	5,745.748
Technical Support	3,080.38
Total Expenses	<u>\$ 86,632.16</u>

4. Financial Policies. (3 and 5) Financial policies form the cornerstone of the Districts' financial practices and are intended to provide guidance when preparing budgets, adopting rates, and developing long-term capital programs. Use of the policies helps create financial stability, allowing the Districts to provide the vital services in a cost-effective manner, weather periods of economic downturn without having to impose significant rate increases, and construct capital projects in a timely fashion despite fluctuations

in costs from year to year. Narrow changes to the Investment and Financial Reserve Policies were presented to the Personnel Committee in October 2020; the Committee unanimously endorsed them. They are now being brought to the individual Boards for the Directors' consideration and adoption. No changes are being proposed to the Debt Management Policy. Copies of the policies showing the proposed revisions are attached. The recommended changes to the Investment Policy formally document the current practice of using interest-bearing bank and savings and loan association deposits for a portion of Districts' reserve funds, as well as the practice of using Money Market Funds as short-term (typically less than seven days) investments during gaps in availability of other longer-term investments. Several changes to the Wastewater Financial Reserve Policies are recommended. First, the policies currently provide for the use of sinking funds, which provide a mechanism for setting aside revenue for certain routine and recurring capital projects. It is recommended that these projects instead be included in the normal planning process for capital projects, thereby eliminating the need for sinking funds. Second, the existing policies provide for a Natural Disaster Fund, which is intended to provide temporary funding in the event of a natural disaster in order to continue Districts' operations with the expectation that reimbursement would eventually be received from insurance or state or federal sources. The fund currently has a balance of approximately \$17 million. It is recommended that use of this fund be expanded to include natural-disaster-related expenses not covered by other sources and to allow use of the fund to pay for insurance claims that fall within the \$5 million Self-Insured Retention layer not covered by the Districts' umbrella liability policy. By expanding the use of this fund, the risk to any one District or solid waste entity from a rare, high-cost event is significantly reduced. Finally, revisions to the Capital Improvement Fund section of the policy are recommended to make the language consistent with the other Sanitation Districts' policies. The changes won't affect use of those funds.

Very truly yours,



Robert C. Ferrante

RCF:drs
Enclosures

Notice and Agenda

REGULAR MEETING — BOARD OF DIRECTORS — COUNTY SANITATION DISTRICT NO. 27/
NEWHALL RANCH SANITATION DISTRICT

To be held in the HEARING ROOM
OF THE BOARD OF SUPERVISORS
Kenneth Hahn Hall of Administration, Los Angeles, California

*In Response to concerns about the Novel Coronavirus (COVID-19), and in accordance with the
Governor's Executive Order N-29-20, you may find further information at:*
<http://bos.lacounty.gov/Board-Meeting/Board-Agendas>

TUESDAY		December 8, 2020		At 9:30 A.M.
BARGER	HAHN	SOLIS (Chairperson)	KUEHL	MITCHELL

1. Recommendation: Receive and Order filed certificate of the Presiding Officer of the Board of Supervisors and the action electing the Chairperson Pro Tem (both Districts)
2. Recommendation: Approve minutes of the adjourned regular meetings held September 15, 2020 (both Districts)
3. Recommendation: Approve July, August, and September 2020 expenses in total amounts of \$69,943.43 (District No. 27) (3) and \$86,632.16 (Newhall Ranch Sanitation District) (5)
4. Recommendation: Adopt Financial Policies as (both Districts):
 - (a) Investment Policy
 - (b) Wastewater Financial Reserve Policy

Adjourn

INVESTMENT POLICY

**For Approval by
Districts No. 27 and Newhall Ranch Sanitation District
December 8, 2020**

December 2020

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Investment Policy

1. Policy Statement

This Investment Policy of County Sanitation District No. x of Los Angeles County (District) provides for the prudent investment of the District's funds and the effective management of investment activities. This Policy covers all investment activities directly controlled by the District.

2. Treasurer; Administration

- 2.1 The District's Chief Engineer and General Manager is hereby appointed Treasurer of the District, and is trustee of the District's funds.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and to manage, deposit, and invest District funds in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall report to the Board of Directors in accordance with the requirements of law and this Investment Policy.

3. Trustee's Duties and Objectives

The District and the Treasurer are trustees of the public funds of the District and shall implement this Policy using the prudent investor standard and the priority of investment objectives below.

3.1 Prudent Investor Standard

The prudent investor standard is set forth in California Government Code Section 53600.3, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

3.2 Investment Objectives

- 3.2.1 The District's priority of investment objectives is set forth in Government Code Section 53600.5, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.”

3.2.2 The Treasurer shall pursue these objectives as follows:

- (a) *Safety of Principal:* In safeguarding the principal of District funds the District Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
- (b) *Liquidity:* In order to meet the District’s liquidity needs, investments must be made so that maturity dates are compatible with cash flow requirements and, when required, permit easy and rapid conversion into cash.
- (c) *Return on Investments:* Investments will be undertaken to produce a market rate of return after first considering safety of principal and liquidity.

4. Investment Instruments Allowed

The District’s funds may be invested in the following investment instruments:

4.1 Los Angeles County Pooled Surplus Investment Fund (PSIF)

The PSIF is a pooled investment fund created under Government Code Section 27000 et seq. and is administered by the Los Angeles County Treasurer and Tax Collector. PSIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the Los Angeles County Treasurer’s investment staff. Investments in PSIF typically consist of those funds required to cover the District’s operating needs.

4.2 State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund created under Government Code Section 16429.1 et seq. and is administered by the California State Treasurer. LAIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the State Treasurer's Office investment staff.

4.3 Medium-Term Notes

Medium-term notes are all corporate and depository institution debt securities with a maximum original maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. To be eligible as a District investment, medium-term notes must be rated “A” or its equivalent or better by S&P Global Ratings, Moody’s Investor Services, Inc., or Fitch Ratings, Inc.

4.4 County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments

LACSD Debt Instruments, as provided for in Government Code Section 53601(e) and more specifically described in the District's Debt Management Policy, consist of the District borrowing from its Capital Improvement Fund.

4.5 Investments Allowed in the Los Angeles County Treasurer and Tax Collector's Investment Policy

Any other investments allowed in the Los Angeles County Treasurer and Tax Collector's Investment Policy and not already specified in this Policy are incorporated, by reference, into this Policy.

4.6 Deposits held at Nationally- or State-chartered Banks, or State or Federal Savings and Loan Associations

Banking or savings and loan institutions holding demand deposits for the District must meet the definitions provided in California Financial Code section 5102 and must have a rating of "A" or better on its long-term debt by S&P Global Ratings, Moody's Investor Services, Inc., or Fitch Ratings, Inc. Demand deposits must be fully collateralized in accordance with California Government Code Section 53652.

4.7 Shares of beneficial interest in funds investing in U.S. dollar-denominated money market securities (Money Market Funds)

Money Market Funds in which the District invests must be registered with the Securities and Exchange Commission under the Investment Company Act of 1940, and have achieved the highest letter ranking by two of the following: S&P Global Ratings, Moody's Investor Services, Inc., or Fitch Ratings, Inc.

5. Investment Limits and Allocation

5.1 The Treasurer shall continuously evaluate market conditions economic data, interest rate trends and forecasts, and the District's cash flow requirements. When appropriate, the Treasurer shall obtain quotations from brokers, dealers, banks, savings and loan institutions and the Los Angeles County Treasurer's Office. Investments in the PSIF and LAIF will be monitored continually. All of these factors must be considered, among other things, in determining where, in what denomination and for what maturity investments are made.

5.2 There are no limits on the percentages of funds invested in any of the allowable investment instruments, except that:

5.2.1 The total of the medium-term notes may not exceed 30% of the District's funds, with no more than 10% in aggregate in medium-term notes rated A.

5.2.2 No more than 10% of the District's funds may be invested in the securities of any single corporate entity or depository institution rated AA or greater and no more than 2% of the District's funds may be invested in the securities of any single corporate entity or depository institution rated A.

5.2.3 No more than 20% of the District's funds may be invested in Money Market Funds, and no more than 10% of the District's funds may be invested in any single Money Market Fund.

- 5.3 The percentage limitations in Section 5.2 will apply at the time the investment is made. For purposes of calculating these percentages, District funds include all cash and investments of the District as reflected in the District's most recent books of account.

6. Maximum Maturities

- 6.1 The Treasurer shall match investments with anticipated cash flow requirements. Except for LACSD Debt Instruments, the Treasurer will not invest in securities with a remaining maturity of more than five years unless approved by the Board of Directors, either specifically or as a part of an investment program, at least three months prior to purchase.
- 6.2 Funds may be invested in LACSD Debt Instruments for the lesser of thirty years or until the funds are needed for the purpose for which they were collected or restricted, unless otherwise restricted by law.

7. Purchasing Entities

- 7.1 Investments not purchased directly from the issuer or not purchased using pooled funds in PSIF or LAIF must be purchased through the Los Angeles County Treasurer. The Los Angeles County Treasurer, in accordance with Government Code Section 53601.5, must purchase these investments from or through:
- 7.1.1 An institution licensed by the State of California as broker/dealer, as defined in Section 25004 of the Corporations Code;
 - 7.1.2 A member of a federally regulated securities exchange;
 - 7.1.3 A national or state-chartered bank;
 - 7.1.4 A savings association or a federal association; or
 - 7.1.5 A brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

8. Investment Safekeeping

To ensure a high degree of internal safety, all certificates or other evidence of securities or other investments purchased by or for the District will be held for safekeeping by the Los Angeles County Treasurer in a manner that reflects the District's ownership.

9. Reporting Requirements

In accordance with Government Code Section 53646, the Treasurer shall prepare and submit a quarterly report to the Board of Directors. The quarterly report must comply with applicable law and include the security type, issuer, investment yield, date of maturity, par value, amount invested, current market value and source of this valuation. Any investments in PSIF or LAIF will be included with a summary of that pool's most recent investment statement.

10. Internal Control

In addition to the certified public accountant’s yearly independent audit of the District, the Treasurer will cause the District’s Internal Auditor to conduct quarterly audits of the investment portfolio to ensure compliance with this Investment Policy and related procedures.

11. Ethics and Conflicts of Interest

Officers and employees of the Districts involved in the investment process are prohibited from personal business activities that could conflict with proper execution of the Districts’ investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials must disclose to the Treasurer any material financial interests in financial institutions, broker dealers and vendors that conduct business with the Districts’ and must disclose any larger financial/investment positions which could relate in a conflicting manner to the performance of the Districts’ investment portfolio by filing Form 700 annually.

12. Investment Policy Adoption

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board of Directors. Prior to that review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of the each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this _____ day of _____.

WASTEWATER
FINANCIAL RESERVE POLICY

For Approval by
Districts No. 27 and Newhall Ranch Sanitation District
December 8, 2020

December 2020

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Wastewater Financial Reserve Policy

1. Policy Statement

County Sanitation District No. x of Los Angeles County (District) is a provider of essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Given the impact these essential services have on public health, the environment, and the overall quality of life, very few options exist for service reduction levels in the event of revenue shortfalls or other funding deficiencies. Maintaining prudent financial reserves provides the resources to allow the District to continue to fulfill its commitment to deliver reliable and high quality service to its customers. Financial reserves provide significant benefits including:

- Stabilizes user charge rates, creating more certainty so ratepayers can better plan their budgets;
- Minimizes risk associated with borrowing, which can result in lower interest costs;
- Demonstrates the District's financial stability to credit rating agencies;
- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the District to effectively respond to economic, environmental, and regulatory changes.

2. Treasurer; Administration

- 2.1 The District, through its Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) in accordance with the requirements of law and this Policy.

3. Types of Funds/Reserves

The District will maintain its financial assets in various "Funds" as described in this Policy. Fund balances will be maintained in amounts sufficient to meet appropriate target goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The District's Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

The Unrestricted Fund includes all monies collected or generated by or on behalf of the District, without regard to the source, except those that have been deemed to be Designated or Restricted. ~~These monies are available for spending with no legal, regulatory, or Board-imposed restrictions.~~

3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities, land acquisition, and repair and replacement of existing assets. The Board may designate these purposes either through specific action or through approval of the annual budget. These monies are not otherwise legally restricted, and the Board has the discretion to redesignate the actual or intended usage of these monies.

3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures, State Revolving Fund installment sales agreements). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

4. **System Funds**

The District may participate with other members of the County Sanitation Districts of Los Angeles County (collectively, the Districts) in separate agreements (e.g., the Joint Administration, Joint Outfall System, and Solid Waste System Agreements). Funds necessary for operations related to these agreements will be pooled. Except for Funds dedicated solely to the Solid Waste System, all pooled Funds will be held and managed by County Sanitation District No. 2 of Los Angeles County as the administrative district for the Districts in accordance with the respective agreements and District No. 2's Wastewater Financial Reserve Policy. District No. 2 will separately adopt a Solid Waste Reserve Policy for all Solid Waste Funds.

5. **Unrestricted Funds**

5.1 Operating Fund

5.1.1 Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

5.1.2 Targeted Goal

The minimum targeted goal balance on July 1 of each fiscal year is the projected net expenses during the first six months of that fiscal year. Net expenses shall be equal to all projected expenses less any anticipated revenues (e.g., industrial wastewater surcharges) and funding sources (e.g., State Revolving Fund loans).

5.1.3 Review Timeline

The minimum targeted goal shall be reviewed annually in conjunction with the adoption of the District's final budget.

5.1.4 Funding

All revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund.

6. Designated Reserves

The Designated Reserve Funds include the Emergency Fund, ~~various Sinking Funds~~, the Operations and Maintenance Financial Stability Fund, the Capital Projects Financial Stability Fund, the Natural Disaster Fund, and any other funds designated by the Board of Directors other than Restricted Reserve Funds.

6.1 Emergency Fund

6.1.1 Purpose:

The District budgets for all anticipated expenditures, but emergencies and unforeseen circumstances can occur during the course of the year. The Emergency Fund is intended to provide funding for work that must be undertaken to address emergencies or unforeseen circumstances (such as repairing a sinkhole) and to ensure the District can continue to provide all of its vital public services.

6.1.2 Targeted Goal:

The targeted goal balance is the greater of:

(a) 0.5% of the Net Sewerage Operations Capital Assets as identified in the most recently filed Comprehensive Annual Financial Report multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all Districts; or.

(b) \$50,000.

6.1.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.1.4 Funding:

The Treasurer will on July 1 of each year transfer from or to its Operating Fund an amount equal to its targeted goal for the new fiscal year less its targeted goal for the just ended fiscal year.

6.2 Operations and Maintenance (O&M) Financial Stability Fund

6.2.1 Purpose:

The O&M Financial Stability Fund is a dynamic fund that will be used to facilitate wastewater rates transitioning smoothly from year to year. Monies will be withdrawn from this Fund in some years, allowing expenses to be met without having to impose spiked increases in the rates. In other years, monies will be deposited into this Fund, replenishing it in lieu of having spiked decreases in the rates. In any given year, as the need arises, the District may use up to 10% of the Fund for any purpose without Board authorization, in addition to any use previously authorized as part of the rate setting and budget process. When monies are used from this Fund that drop the balance below the targeted goal, the Treasurer will prepare a plan to fully restore the Fund to its targeted goal by the latter of

(a) five years; or

(b) six years of the date for which the last adopted service charge becomes or has become effective.

6.2.2 Targeted Goal:

The long-term targeted goal balance is equal to six months of O&M expenses plus one year of debt service (excluding any debt service that has a Debt Service Reserve Fund).

6.2.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.2.4 Funding:

The Treasurer will annually transfer moneys from its Operating Fund to the O&M Financial Stability Fund an amount equal to the annual targeted goal. If the transfer of the full targeted goal amount would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the targeted goal within ten years. In order for the fund balance to be less than 50% of the targeted goal, the sum of the monies in the fund plus the amount the District can borrow from its Capital Improvement Fund, pursuant to the District's Debt Management Policy, must be greater than 60% of the targeted goal.

6.2.5 Additional Monies

The District may also place additional monies into the O&M Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted

goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

6.3 Capital Projects Financial Stability Fund

6.3.1 Purpose:

The size and scope of capital projects (and the associated cost) varies from year to year, which could result in peaks and valleys in user charge rates if the projects are to be funded dollar-for-dollar in the year in which the expenses are incurred. This Fund will ensure that monies are not only available to meet capital expenses over the long-term, but also to meet the annual demand without requiring significant rate fluctuations.

6.3.2 Targeted Goal:

The targeted long-term average goal balance will be equal to the greater of

(a) The difference between the projected maximum and average annual capital expenditures to be cash funded from revenues identified in the Capital Improvement Plan over the ensuing ten years; or

(b) \$100,000.

6.3.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.3.4 Funding:

The Treasurer will annually transfer monies from its Operating Fund to the Capital Projects Financial Stability Fund an amount equal to the annual targeted goal. If the transfer would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the target goal within ten years. In no case shall the fund balance be less than \$100,000 immediately after the annual transfer.

6.3.5 Additional Monies

The District may place additional monies into the Capital Projects Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

~~6.4 Sinking Funds~~

~~6.4.1 Purpose:~~

~~Sinking Funds are the systematic accumulation of funds set aside for a specified time frame for the specific purpose of funding recurring major capital projects or their replacements. A separate sinking fund shall be established for each identified project,~~

~~which can be specific to this District or shared among many Districts. The reserves in the sinking fund can only be drawn upon for the identified project for which it was established, unless otherwise approved by the Board(s) of Directors.~~

~~6.4.2 Targeted Goal:~~

~~The targeted goal balance at the end of the sinking period (i.e. the number of years over which the reserves will be accumulated) will be equal to the total anticipated cost of the project, exclusive of any costs that may be financed with outside funding sources. If the sinking fund is for a project to be undertaken jointly with other Districts, the District's share will be equal to the annual target goal multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all of the participating Districts.~~

~~6.4.3 Review Timeline:~~

~~The annual targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.~~

~~6.4.4 Funding:~~

~~The Treasurer will annually transfer from its Operating Fund to each Sinking Fund an amount equal to its share of the targeted goal for that Sinking Fund divided by the number of years in the sinking period.~~

6.56.4 Natural Disaster and Self-Insured Retention (SIR) Fund

6.5.16.4.1 Purpose:

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue District operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; and 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled, shared proportionally among the Districts and Solid Waste entities.

6.5.26.4.2 Targeted Goal:

The initial targeted goal balance for the pooled Natural Disaster and SIR Fund is \$17 million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements. ~~and The Districts' Insurance and Claims Coordinator will determine the appropriate share for each District and Solid Waste entity, taking into consideration such factors as value of assets and risk assessment.~~

6.5.36.4.3 Review Timeline:

The targeted goal balance will be reviewed and adjusted every five years with the first review beginning in 2022 to be completed by June 30, 2022.

6.5.46.4.4 Funding:

At the end of each five-year review period, the Treasurer will make a transfer from the Operating Fund to the Natural Disaster Fund, as necessary, for the District's share of any increase in the targeted goal.

6.66.5 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the District. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

7. Restricted Reserves

7.1 Other Post-Employment Benefits (OPEB) Reserve Fund

7.1.1 Purpose:

The Districts collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third-party trustee.

7.1.2 Targeted Goal:

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' annual required contribution (ARC) as determined by a qualified actuarial consultant.

7.1.3 Review Timeline:

The actuarial review is required at least biennially.

7.1.4 Funding:

Each year the Treasurer will collectively transfer the ARC to the third party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Solid Waste entities in proportion to the salaries incurred by the District or Solid Waste entity since the previous transfer was made.

7.2 Debt Service Reserve Fund

7.2.1 Purpose:

Some debt instruments (e.g., bond indentures, installment sales agreements) may require a Debt Service Reserve Fund, typically equal to the maximum annual debt service over the life of the debt. A separate Debt Service Reserve Fund will be established for each

debt instrument that requires it. The monies in each Debt Service Reserve Fund will only be used:

- (a) to support payment of principal and interest of outstanding obligations if revenues pledged for repayment are insufficient to meet the required payment; or
- (b) to extinguish the debt.

7.2.2 Targeted Goal:

The targeted goal balance for any Debt Service Reserve Fund must equal the amount required by the associated debt instrument.

7.2.3 Review Timeline:

Each Debt Service Reserve Fund balance will be reviewed annually as part of the continuing disclosure process required under the debt instrument.

7.2.4 Funding:

Each Debt Service Reserve Fund will generally be funded at the time the debt is incurred, using a portion of the debt proceeds, if allowable. If the debt proceeds cannot be used to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund may be funded from any allowable District's monies. If the District makes a draw on the Debt Service Reserve Fund, the Debt Service Reserve Fund must be replenished in the time and manner specified in the debt instrument.

7.3 Capital ~~Improvement~~ Fund

7.3.1 Purpose:

New users and existing users that significantly increase their wastewater discharge are required to pay a connection fee. ~~The connection fee is intended to recoup the incremental cost of expansion necessary to accommodate the additional discharge.~~ The capital ~~improvement~~ portion of the connection fee is deposited into one or more Capital ~~Improvement~~ Funds in accordance with the District's Master Connection Fee Ordinance. Funds are withdrawn as necessary to fund ~~expansion-related~~ capital projects. If the monies are not needed in the short-term, the District may borrow the funds as long as they are repaid with interest before they are needed.

7.3.2 Targeted Goal:

There is no targeted goal balance for the Capital ~~Improvement~~ Fund. The amount of money deposited into the Capital ~~Improvement~~ Fund is dependent on the rate at which additional burdens are placed on the wastewater system. The Capital ~~Improvement~~ Fund balance varies depending on connection fee revenues, expenditures for capital projects, and permitted borrowing from the Fund.

7.3.3 Review Timeline:

Connection fee rates will be reviewed annually.

7.3.4 Funding:

The capital ~~improvement~~ portion of the connection fees will be deposited into the Capital ~~Improvement~~ Fund in accordance with the District's Master Connection Fee Ordinance.

7.4 Bond Construction Fund

7.4.1 Purpose:

When bonds are issued, all of the proceeds are received at the time of issuance. Except for a small portion which is used for the cost of issuance, the proceeds are placed into a Bond Construction Fund and can only be used for the purposes identified in the Official Statement, Tax Certificate, and Installment Purchase Agreement for the bond issuance.

7.4.2 Targeted Goal:

The amount of money in the Bond Construction Fund is dependent on the size of the bond issuance, with the expectation that the proceeds will be expended in the time frames detailed in the Tax Certificate.

7.4.3 Review Timeline:

No review is necessary as there is a single deposit into each Bond Construction Fund.

7.4.4 Funding:

Bond proceeds, except for the cost of issuance, capitalized interest, any required debt service reserve funds, and refunding escrows, will be deposited into the Bond Construction Fund at the time of issuance.

7.5 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

8. Wastewater Financial Reserve Policy Adoption

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. Prior to such review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this _____ day of _____.