



**LINCOLN-SMD 1 WASTEWATER AUTHORITY
MEETING AGENDA**

Regular Meeting of the Board of Directors

Lincoln City Hall, Third Floor Council Chambers
600 Sixth Street, Lincoln, CA 95648

September 12, 2025 at 10:00 a.m.

The public may also observe and participate in the meeting via Zoom at the following
videoconferencing link:

https://us06web.zoom.us/webinar/register/WN_L2bYfOdARYiQxL2vDwckAQ

Board of Directors

CITY OF LINCOLN

Holly Andreatta, Chair
John Reedy

COUNTY OF PLACER

Shanti Landon, Vice-Chair
Cindy Gustafson

General Manager and Secretary

Jim Mulligan

Legal Counsel

Wes Miliband

PRELIMINARY MATTERS

- A. CALL TO ORDER
- B. PLEDGE OF ALLEGIANCE
- C. ROLL CALL
- D. PUBLIC COMMENT ON NON-AGENDA ITEMS

Any member of the public wishing to address the Board of Directors regarding items not on the Agenda within the Authority's subject matter jurisdiction should do so at this time. With respect to items on the Agenda, the Board will receive public comments at the time the item is opened for discussions, prior to any vote or other Board action. A three-minute time limit is requested. Please complete a speaker card and submit it to the General Manager at the meeting.



ACTION CALENDAR

1. CONSENT ITEMS

It is recommended by the General Manager that these items, which are expected to be routine in nature and without controversy, be received and acted upon by the Board without discussion. If any Board member or interested party requests that an item be removed from the Consent Calendar for discussion, it will be considered separately. The consent calendar may be approved by a single motion to approve, followed by a second and then a call for vote.

1.1 Approval of Minutes – 08/08/25 Regular Meeting

2. GENERAL MANAGER'S REPORT AND UPDATE (Discussion, No Action) – A PowerPoint and verbal report will be provided to include the following:
 - GM Work in Progress
 - July 2025 Operations Fund Income Statement
3. OPERATIONS REPORT (Discussion, No Action) – A written and verbal report will be provided.
4. LISWA RESERVE POLICY PRIMER – A verbal report and presentation from Ken Dieker, Del Rio Advisors.
5. LEGAL REPORT – A verbal report from General Counsel pertaining to relevant legislative, case, or related developments that have occurred.
6. DIRECTOR'S COMMENTS
7. CLOSED SESSION MATTERS - CONVENE TO CLOSED SESSION FOR MATTER(S) LISTED ON THE AGENDA

Public Employee Evaluation
(Government Code § 54957(b)(1))
Title: General Manager, Board Secretary, Authority Engineer

ADJOURNMENT

THE FOLLOWING INFORMATION IS PROVIDED TO ASSIST WITH PUBLIC PARTICIPATION:

Americans with Disabilities Act (ADA): In compliance with the ADA, if you need special assistance to participate in this meeting or other services in conjunction with this meeting, please contact the Lincoln City Clerk's Office at (916) 434-2490. The meeting room is wheelchair accessible and disabled parking is available. Notification at least 24 hours prior to the meeting or time when services are needed will assist staff in assuring reasonable arrangements can be made to provide accessibility to the meeting or service.

Agenda Availability: The main posting location of the LiSWA Agenda is on the public kiosk outside the entrance of Lincoln City Hall, 600 6th Street, Lincoln, California. Agenda Packets are available for review at the Lincoln City Clerk's Office, 600 6th Street, Lincoln, California.



**LINCOLN-SMD 1 WASTEWATER AUTHORITY
MEETING MINUTES**

Regular Meeting of the Board of Directors

August 8, 2025, at 10:00 a.m.

Board of Directors

CITY OF LINCOLN

Holly Andreatta, Chair
John Reedy

COUNTY OF PLACER

Shanti Landon, Vice-Chair
Cindy Gustafson

General Manager and Secretary

Jim Mulligan

Legal Counsel

Wes Miliband

PRELIMINARY MATTERS

A. CALL TO ORDER

The meeting was called to order at 10:08 am.

Director Andreatta changed the order of items B and C.

B. PLEDGE OF ALLEGIANCE

The pledge was led by Matt Medill

ROLL CALL

Directors Present:

Holly Andreatta, Chair
Shanti Landon, Vice Chair
John Reedy, Director
Cindy Gustafson, Director

Staff present:

Jim Mulligan, General Manager and Board Secretary
Wes Miliband, Legal Counsel
Kelye McKinney, Authority Engineer

C. PUBLIC COMMENT ON NON-AGENDA ITEMS

There were no public comments on non-agenda items.



ACTION CALENDAR

1. CONSENT ITEMS

1.1 Approval of Minutes – 06/13/25 Regular Meeting

Motion to approve by Director Andreatta, Second by Director Reedy, Approved 4-0

2. GENERAL MANAGER'S REPORT AND UPDATE (Discussion, No Action) – A PowerPoint and verbal report will be provided to include the following:

A PowerPoint and verbal report were provided discussing financial report and work in progress.

- GM Work in Progress

Director Landon has scheduling conflict with PCA BOD meeting in September.

Kelye McKinney explains it would start at the beginning of the calendar year.

Wednesday 12 pm – 2 pm is presented for future LiSWA Board of Directors; Approved 4-0

Wes Miliband explains LiSWA will comply with notice requirement for the above change.

- June 2025 Operations Fund Income Statement

Director Landon asks about revenue GL42640 – Sanitation Services Other and why it's over budget.

Jenna Gelso explains the connection fees were not part of the FY2425 budget.

Director Landon requests "Gross Profit" on Income Statement to renamed; LiSWA is not for profit.

Jenna Gelso agrees and will update.

3. OPERATIONS REPORT (Discussion, No Action) – A written and verbal report will be provided.

Gary Hengst gives PowerPoint presentation on operations.

GM, Jim Mulligan explains the agricultural lease may not be renewed as the landowner might have sold his land.

Director Reedy asks to confirm statement above.

GM, Jim Mulligan explains they are in correspondence with customer and will confirm.

Kelye explains LiSWA may need the recycled water from the customer above as the City of Lincoln is interested in receiving more recycled water for new development, parks, commercial landscaping, etc.

Gary Hengst explains it takes ~ half the energy to discharge to the creek than the customer above, and would save costs.



Director Andreatta has question about releasing recycled water into the creek and how it effects the area.

Gary Hengst explains that three times a year, LiSWA has temperature regulations to meet; are at 1/3 capacity and only discharge up to 14 times/month.

Director Gustafson asks question on well depth.

Gary Hengst explains the wells are not more than 50 ft deep.

Kelye McKinney explains a groundwater monitoring well study RFP process is underway to select a consultant and apply for NPDES permit by State deadline of March 1st, 2026.

Director Andreatta asks question about delay in plant maintenance.

Gary Hengst explains that delays in working with the vendor prolonged maintenance starting.

Director Reedy asks question about Work Order pie chart colors.

Director Andreatta asks question about Work Order pie chart and the difference between Corrective Maintenance blue (emergency) v red (non-emergency).

Gary Hengst will update chart to be clearer.

APPROVE A PROFESSIONAL SERVICES AGREEMENT BETWEEN LISWA AND RAFTELIS FINANCIAL CONSULTANTS TO PERFORM FINANCIAL REVIEW SERVICES RELATED TO A PROFORMA CASH FLOW MODEL, NEXUS STUDY AND A COST-OF-SERVICIE-STUDY IN AN AMOUNT NOT TO EXCEEN \$40,049.00. (Action Requested – Board Approval) – A written and verbal report will be provided.

GM, Jim Mulligan explains an RFP from May 2025 to find a consultant to support loan application for improvement project was performed. LiSWA received three proposals, TAG and LiSWA staff ranked them with a point system, and selected Raftelis Financial Consultants.

Director Reedy has question about the fiscal model variant of working with current WWTRU system vs updated WWTRU policy.

GM, Jim Mulligan explains it is in Raftelis' scope to update the model when the new policy is in place.

Motion to approve by Director Landon, Second by Director Reedy, Approved 4-0

4. LEGAL REPORT – A verbal report from General Counsel pertaining to relevant legislative, case, or related developments that have occurred. An overview on Propositions 218 and 26 will also be provided.

Wes Miliband gives a verbal report and PowerPoint presentation on Prop 218 and 26.

5. DIRECTOR'S COMMENTS

Director Andreatta asks LiSWA/Jacobs staff if additional sewage haulers are needed (someone forward their information) and to be aware that they will be contacting them.



6. CLOSED SESSION MATTERS - CONVENE TO CLOSED SESSION FOR MATTER(S) LISTED ON THE AGENDA

Session closed at 10:50 am.

Open session reconvened at 11:04 am.

Director Andreatta states for the record the date is Friday, August 8th, 2025, not June 13th, 2025 as indicated on closed session screen.

Public Employee Evaluation
(Government Code § 54957(b)(1))
Title: General Manager, Board Secretary, Authority Engineer

Wes Miliband explains there no reportable actions from item listed on the agenda from the closed session.

ADJOURNMENT

The meeting was adjourned at 11:04 am.



GENERAL MANAGER'S REPORT

**LiSWA Regular Board Meeting
September 12, 2025**





Agenda

- GM Work in Progress
- LiSWA July 2025 Operations Income Statement



General Manager's Report

GM Work in Progress

- Zero-Emission Vehicle (ZEV) fleet update - Vehicle pilot test in process
- WWTRU Policy Revision – Working with entities to convert data for use in GIS tracking tool; finalizing policy with TAG
- Groundwater Monitoring Well Study – Proposals Due today, 9/12/25
- WWTRF Improvement Project – SRF Funding application underway; disk filter technical analysis being revised; CEQA document planned for Board approval in October
- Optimization Studies – Solids handling and greenhouse drying study received and under review
- WWTRF Capacity Analysis – Received and under review
- Lincoln Development Coordination – Village 5
- Reserve Policy – Presentation today

Lincoln-Sewer Maintenance District 1 Wastewater Authority
Operations Fund Income Statement
July 2025

	<u>Jul 25</u>	<u>Budget</u>	<u>Variance</u>	<u>% of Budget</u>
Income				
42010 - Investment Income				
RC0560 - Investment Income	\$ 90,042.61			
Total 42010 - Investment Income	\$ 90,042.61			
42030 - Short Term Rents				
RC0600 Short Term Rents	\$ 2,070.00	\$ 69,090.00	\$ (67,020.00)	3.0%
Total 42030 - Short Term Rents	\$ 2,070.00	\$ 69,090.00	\$ (67,020.00)	3.0%
46230 - Sanitation Services				
RC2230 - Operations	\$ 777,066.40	\$ 9,682,614.00	\$ (8,905,547.60)	8.03%
Total 46230 - Sanitation Services	\$ 777,066.40	\$ 9,682,614.00	\$ (8,905,547.60)	8.03%
46240 - Sanitation Serv Other				
RC2190 - Capital / Debt	\$ 367,312.11	\$ 4,576,882.00	\$ (4,209,569.89)	8.03%
RC2190 - Sewer Connection Fees		\$ 2,500,000.00	\$ (2,500,000.00)	
Total 46240 - Sanitation Serv Other	\$ 367,312.11	\$ 7,076,882.00	\$ (6,709,569.89)	5.19%
46360 - General Reimbursement				
RC2680 - Other		\$ 55,000.00	\$ (55,000.00)	
Total 46360 - General Reimbursement		\$ 55,000.00	\$ (55,000.00)	
48030 - Miscellaneous				
RC3010 - Reclaimed Water		\$ 30,000.00	\$ (30,000.00)	
Total 48030 - Miscellaneous		\$ 30,000.00	\$ (30,000.00)	
Total Income	\$ 1,236,491.12	\$ 16,913,586.00	\$ (15,677,094.88)	7.31%
	\$ 1,236,491.12	\$ 16,913,586.00	\$ (15,677,094.88)	7.31%
Expense				
52020 - Goods				
SC2029 Chemicals	\$ 49,617.81	\$ 558,249.00	\$ (508,631.19)	8.89%
Total 52020 - Goods	\$ 49,617.81	\$ 558,249.00	\$ (508,631.19)	8.89%
52040 - Communication Services				
SC2085 - Telephone		\$ 10,000.00	\$ (10,000.00)	
Total 52040 - Communication Services		\$ 10,000.00	\$ (10,000.00)	
52080 - Insurance Services				
SC2140 - Insurance Services	\$ 155,071.57	\$ 250,000.00	\$ (94,928.43)	62.03%
Total 52080 - Insurance Services	\$ 155,071.57	\$ 250,000.00	\$ (94,928.43)	62.03%
52160 - Maintenance - Service				
SC2270 - Maintenance	\$ 3,672.29	\$ 171,260.00	\$ (167,587.71)	2.14%
SC2270 - WWTRF Maintenance	\$ 25,550.88	\$ 320,816.00	\$ (295,265.12)	7.96%
Total 52160 - Maintenance - Service	\$ 29,223.17	\$ 492,076.00	\$ (462,852.83)	5.94%
52240 - Member, Reg, Warr				
SC2550 - Prof Membership		\$ 10,800.00	\$ (10,800.00)	
Total 52240 - Member, Reg, Warr		\$ 10,800.00	\$ (10,800.00)	
52360 - Prof/Special Services				
SC2950 - Engineering WWTRF	\$ 2,363.50	\$ 475,000.00	\$ (472,636.50)	0.5%

Lincoln-Sewer Maintenance District 1 Wastewater Authority

Operations Fund Income Statement

July 2025

	Jul 25	Budget	Variance	% of Budget
SC3030 - Security WWTRF	\$ 360.00			
52360 - Prof/Special Services - Other		\$ 1,248,988.00	\$ (1,248,988.00)	
Total 52360 - Prof/Special Services	\$ 2,723.50	\$ 1,723,988.00	\$ (1,721,264.50)	0.16%
52370 - Prof/Special Services				
SC3130 - Legal	\$ 2,737.50	\$ 150,000.00	\$ (147,262.50)	1.83%
Total 52370 - Prof/Special Services	\$ 2,737.50	\$ 150,000.00	\$ (147,262.50)	1.83%
52380 - Prof/Special Services				
SC3310 - Operations	\$ 229,174.92	\$ 2,581,418.00	\$ (2,352,243.08)	8.88%
Total 52380 - Prof/Special Services	\$ 229,174.92	\$ 2,581,418.00	\$ (2,352,243.08)	8.88%
52390 - Prof/Special Services		\$ 75,000.00	\$ (75,000.00)	
52400 - Information Technology				
SC3360 - IT Services	\$ 5,985.75	\$ 150,000.00	\$ (144,014.25)	3.99%
Total 52400 - Information Technology	\$ 5,985.75	\$ 150,000.00	\$ (144,014.25)	3.99%
52450 - Prof/Special Services				
SC3480 - Short Term Rental	\$ 5,132.58	\$ 64,000.00	\$ (58,867.42)	8.02%
Total 52450 - Prof/Special Services	\$ 5,132.58	\$ 64,000.00	\$ (58,867.42)	8.02%
52510 - Commissioner's Fees		\$ 9,600.00	\$ (9,600.00)	
52570 - Advertising		\$ 7,500.00	\$ (7,500.00)	
52800 - Utilities				
SC4340 - Utilities	\$ 104,418.74	\$ 2,237,200.00	\$ (2,132,781.26)	4.67%
Total 52800 - Utilities	\$ 104,418.74	\$ 2,237,200.00	\$ (2,132,781.26)	4.67%
52810 - Goods				
SC4456 - Sewage Treatment	\$ 76,357.08	\$ 968,024.00	\$ (891,666.92)	7.89%
Total 52810 - Goods	\$ 76,357.08	\$ 968,024.00	\$ (891,666.92)	7.89%
53190 - Taxes and Assessments				
SC4870 - Taxes and Assessments	\$ 6,092.67	\$ 90,000.00	\$ (83,907.33)	6.77%
Total 53190 - Taxes and Assessments	\$ 6,092.67	\$ 90,000.00	\$ (83,907.33)	6.77%
54450 - Capital Asset Equipment		\$ 1,712,000.00	\$ (1,712,000.00)	
59000 - Debt Payments		\$ 2,705,200.00	\$ (2,705,200.00)	
Total Expense	\$ 666,535.29	\$13,795,055.00	\$(13,128,519.71)	4.83%
Net Ordinary Income	\$ 569,955.83	\$ 3,118,531.00	\$ (2,548,575.17)	18.28%
Other Expense				
Depreciation Expenses	\$ 541,300.83			
Total Other Expense	\$ 541,300.83		\$ 541,300.83	100.0%
Net Other Income	\$ (541,300.83)		\$ (541,300.83)	100.0%
Net Income	\$ 28,655.00	\$ 3,118,531.00	\$ (3,089,876.00)	0.92%

Footnotes

September 2025 LWWTRF Operations Report

9-12-25

Highlights

- 147.984 Million Gallons (MG) of influent, 68.297 MG of effluent was sent to reclamation and 94.572 MG of effluent was sent to Auburn Ravine this month.
- Centrifuge #3 is currently going through a major service. Cracks were found in the scroll which will require service off site and a rental scroll to maintain operation. Photos 1 – 3.
- Old DAF pressurization tanks were removed and new tanks installed. Photo 4
- Tertiary Storage Pond #2 failed curbing was removed. Photos 5 and 6.
- DAF Pressurization Pump 1A was pulled for inspection. Severe corrosion was discovered on pump casing. Photos 7 and 8.
- Our old yard goat is out of service due to many issues, and electric yard goat has been rented and we are obtaining quotes for purchase. Photos 9 & 10.

Compliance

-We had one permit non-compliance issue. Our contract lab had several nitrate analysis failures in August. We were able to resample to meet permit compliance on most of them but the daily nitrate sample on 8/12/25 required by the reclamation permit was not recoverable.

Major Equipment Out of Service

Equipment	Failure Date	Redundancy	Problem	Solution	Estimated Repair Cost	Estimated Return to Service Date
Filter Feed Pump #2	3-25-24	1 of 4	Motor windings are broken down. Failed in wet weather.	Spare pump is on order.	\$170,437	TBD
WAS 14" discharge and isolation valves at SHT	11-23-24	N/A	Valves broke when opening to put SHT back in service	Replace original valves. LiSWA to purchase.	\$16,000	TBD

Equipment	Failure Date	Redundancy	Problem	Solution	Estimated Repair Cost	Estimated Return to Service Date
Effluent Pump #3	8-25-25	1 of 4	Bearing failure and possibly other issues	Repair pump. Pump is currently at Flygt repair shop awaiting inspection and estimate.	TBD	TBD
YSI UV Inlet turbidity and Transmittance meters	8-30-25	1 of 2	Electrical issue in transmitter	Replace with Hach equipment. Waiting on quote.	TBD	TBD
Yard Goat	7-16-25	1 of 1	Electrical and many other issues	Replace with electric yard goat	\$295,000	12-1-25

Month/Year	Influent INF-001				
	Flow	BOD5	BOD5 Load	TSS	TSS Load
	MGD	mg/L	Lbs	mg/L	Lbs
Jan '25	5.768	154	6924	242	10732
Feb '25	8.493	164	11869	208	14997
Mar '25	6.390	240	12757	266	14339
Apr '25	5.583	300	14239	289	13517
May '25	5.019	271	11229	284	11750
Jun '25	4.809	218	8656	345	13717
Jul '25	4.750	254	10008	317	12491
Aug '25	4.774	257	10155	330	13055

Month/Year	Influent INF-001	EFF-001B	Reclamation\Irrigation Flows	Reclamation\Irrigation Flows	Reclamation\Irrigation Flows	Reclamation\Irrigation Flows	Reclamation\Irrigation Flows	TSBs\TSB Inf (LND-001)	General
	Flow	EFF-001B Flow	Total Flow to Reclamation	Warm Springs Flow	Pivot Flow	Machado Flow	Effluent to City Rec (Sierra Pacific & Fosket)	Net Flow (+Influent)(- Effluent)	Precipitation
	MGD	MGD	MGD	MGD	MGD	MGD	MGD	MGD	inches/day
Jan '25	178.80	184.88	2.10	.00	.00	.00	2.10	-5.58	2.28
Feb '25	237.81	201.09	2.13	.00	.00	.00	2.13	18.88	4.41
Mar '25	198.09	286.40	2.31	.00	.00	.00	2.31	-88.99	2.28
Apr '25	167.50	83.91	25.73	15.60	8.10	.00	2.03	45.06	.21
May '25	155.60	34.78	42.22	12.09	27.18	.00	2.95	60.32	.00
Jun '25	144.27	139.80	38.33	10.51	22.90	.00	4.92	-25.97	.00
Jul '25	147.26	87.98	61.62	27.46	30.28	.00	3.88	-14.35	.00
Aug '25	147.98	94.57	68.30	21.80	43.31	.00	3.18	-29.77	.00



Photo 1.



Photo 2.



Photo 3.



Photo 4.



Photo 5.



Photo 6.



Photo 7.



Photo 8.



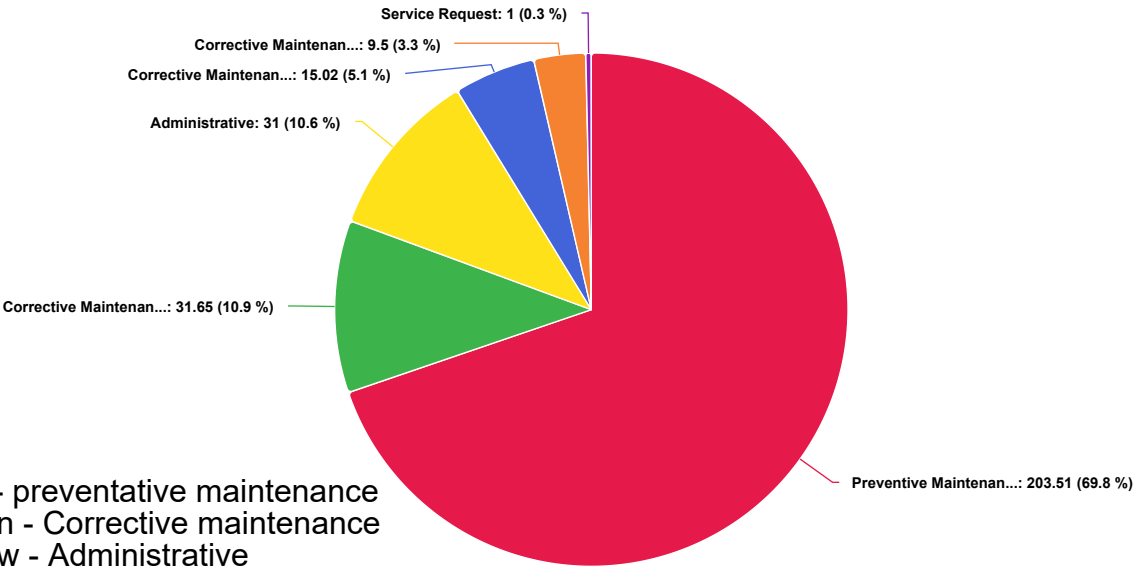
Photo 9.



Photo 10.



Work Order Actual Hours by WO Type



Red - preventative maintenance
Green - Corrective maintenance
Yellow - Administrative
Blue - Corrective maintenance
Orange - Corrective maintenance
Purple - Service request



MEMORANDUM

LINCOLN-SMD1 WASTEWATER AUTHORITY

TO: **LISWA BOARD OF DIRECTORS**
FROM: **JIM MULLIGAN, GENERAL MANAGER**
SUBJECT: **LISWA RESERVE POLICY PRIMER**

DATE: **SEPTEMBER 12, 2025**

RECOMMENDED ACTION

None. This item is for information purposes only.

BACKGROUND

As requested by the Board and to support the funding application(s) for the Wastewater Treatment and Reclamation Facility (WWTRF) Improvement Project, staff has been working with LiSWA's Municipal Advisor, Ken Dieker, of Del Rio Advisors, to establish a comprehensive and effective reserve policy tailored to the Authority.

Mr. Dieker will be making presentation at the September 12, 2025 Board meeting to more generally discuss the fundamentals for financial reserves. Attached for your review is a LiSWA Reserve Policy Primer, to augment Ken's presentation, and the presentation materials. In the months following this informational presentation, staff will work with Ken and the Technical Advisory Group (TAG) to chart through the following decision list and bring back recommendations to the Board for review and approval:

1. Define the Purpose and Objectives of Reserves
2. Decide on the Types of Reserves to Maintain
3. Set Target Reserve Levels
4. Determine Funding Sources and Deposit Strategies
5. Define Conditions for Use and Withdrawals
6. Specify the Order of Spending
7. Establish Monitoring, Reporting, and Review Procedures
8. Ensure Integration with Other Financial Policies

ATTACHMENTS

LiSWA Reserve Policy Primer
Reserve Policy Primer Presentation Materials

LiSWA Reserve Policy Primer

Objective

LiSWA intends to create a reserve policy that identifies the types of financial reserves to be established and their specific purpose. This primer is provided for Board information to advance discussion prior to bringing a draft policy for consideration.

Understanding Reserves and Their Role

In public utilities such as the LiSWA Joint Powers Authority, reserves function much like savings accounts. These funds are critical to the agency's ability to operate consistently and effectively, even in times of financial uncertainty or emergency. Reserves provide financial flexibility. They allow the agency to fund daily operations, respond to unforeseen events, maintain and replace key infrastructure, and finance capital improvements without having to rely solely on borrowing or abrupt rate increases. Properly managed reserves contribute to financial stability and help preserve the quality and reliability of service delivery.

The Different Types of Financial Reserves

There are several different types of financial reserves that serve specific purposes. The most fundamental is the **Operating Reserve**, which consists of unrestricted funds that can be used to address day-to-day needs or unexpected events. These reserves are typically held at a level equal to six to twelve months of operating expenses. Agencies with older infrastructure or more volatile revenues might aim for the higher end of that range, while more stable agencies may require less.

Another important reserve type is the **Rate Stabilization Reserve**, which acts as a buffer against revenue fluctuations. For instance, during periods of economic downturn, revenues may decline. Rather than raising rates sharply to compensate, the agency can draw from this reserve to keep rates stable. Rate stabilization reserves also play a role in meeting financial commitments like debt service. A general guideline is to maintain a balance equal to 15 to 25 percent of annual debt service. These dollars are not restricted to use and are available for any purpose.

Capital Reserves support the agency's long-term investment in infrastructure, such as the construction of new facilities or the upgrade of existing systems. These reserves can be funded from annual revenues, loan proceeds, or restricted funds such as developer impact fees, depending on the nature of the project.

Replacement and Rehabilitation Reserves are used for periodic renewal of assets with shorter useful lives, such as vehicles, pumps, and electronics. Agencies often determine how much to

set aside annually using the depreciation value of their assets or through more refined asset management models that track the age and condition of each asset.

For rare but high-impact events, **Emergency Capital Reserves** are held to help the agency recover quickly from natural disasters or other emergencies. These reserves are generally set as a percentage of the agency's total system value—typically between 3 and 5 percent. When establishing these reserves consideration should be given to emergency risk factors such as natural disasters or extreme weather; vulnerability of critical facilities; and the availability of other funds.

Lastly, **Restricted Reserves** are funds that are legally or contractually limited to specific uses. For example, capacity charges collected from developers can only be used for system expansion or upgrades related to new growth. These reserves are not available for general operations or emergencies.

Setting Appropriate Reserve Targets

A reserve policy must define not only the types of reserves but also how much should be held in each. These targets are typically based on a percentage of operating expenses or debt obligations. For example, operating reserves may be set at a level equal to six months of operating expenses, while rate stabilization reserves may be set to cover a quarter of annual debt service. These targets are not static. They should be reviewed periodically and adjusted based on changes in system needs, risk exposure, and financial conditions.

The goal is to strike a balance. While insufficient reserves can expose the agency to risk, overly conservative policies that stockpile excess cash may lead to inefficient use of public funds and unnecessary pressure on customer rates. Transparent, well-reasoned reserve targets can help avoid both extremes and build public trust.

Capital Planning and Reserve Use

Capital planning is central to the agency's long-term success. A well-developed Capital Improvement Program (CIP) identifies system needs over a multi-year period and matches those needs with available funding sources. Reserves play an important role here, especially under the "pay-as-you-go" or PAYGO model, where reserves are used directly to fund infrastructure projects. This approach can reduce reliance on debt and help lower long-term financing costs.

However, borrowing can also be appropriate—particularly for large, long-lived assets. Most agencies use a blended approach, combining reserves with debt based on affordability, interest rates, and overall reserve levels. The key is to maintain flexibility while managing costs and risks responsibly.

Reserves and Credit Ratings

Maintaining healthy reserve levels is also a key factor in securing favorable credit ratings. Agencies like S&P Global Ratings assess a utility's financial strength based in part on its reserve policies and liquidity. These ratings influence the interest rates the agency will pay when issuing bonds. In fact, reserve-related metrics can account for up to 40 percent of a utility's overall credit profile. Strong reserves support higher credit ratings, which in turn help lower borrowing costs and signal prudent financial management to ratepayers and investors alike.

Conclusion

Reserves are a cornerstone of responsible financial stewardship. They provide the flexibility and stability needed to weather short-term disruptions, support long-term investments, and ensure reliable service to the community. Through clear policies, thoughtful planning, and ongoing oversight, the LiSWA Board can help maintain an effective and balanced reserve strategy that supports both fiscal health and public confidence.



Reserve Policy Discussion
LiSWA Board Meeting
September 12, 2025

Presented By
Kenneth L. Dieker
Del Rio Advisors, LLC

Presentation Purpose

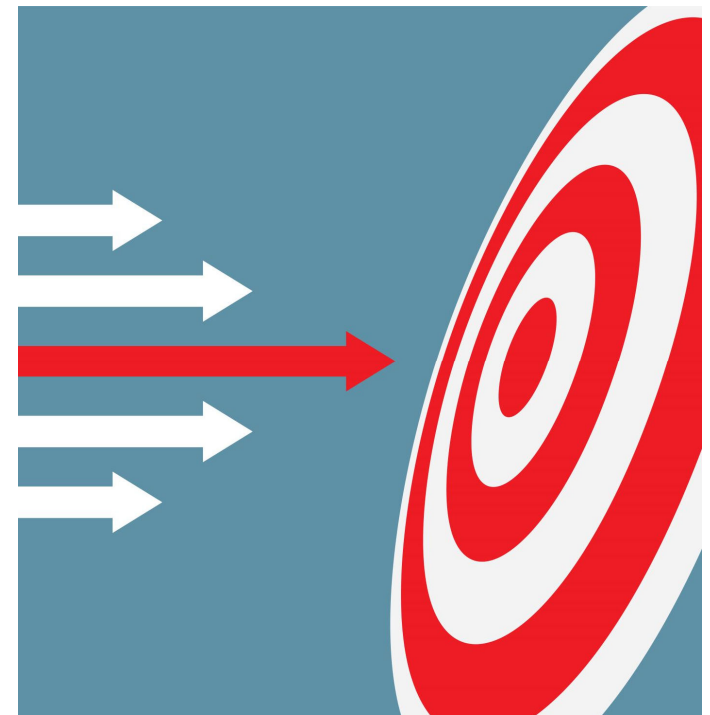
To provide a primer to the Board regarding financial reserves prior to the Board receiving a draft Reserve Policy for review and consideration at a future Board Meeting

What are reserves?

- **Reserves function much like savings accounts**
 - Provide financial flexibility and stability
 - Fund daily operations
 - Respond to unforeseen events
 - Maintain and replace infrastructure
 - Finance capital improvements

Setting Appropriate Reserve Targets

- **A reserve policy must define not only the types of reserves but also how much should be held in each**
 - Targets are not static
 - They should be reviewed periodically and adjusted based on changes in system needs, risk exposure, and financial conditions
- **The goal is to strike a balance**
 - While insufficient reserves can expose the Agency to risk, overly conservative policies that stockpile excess cash may lead to inefficient use of public funds and unnecessary pressure customer charges
 - Transparent, well-reasoned reserve targets can help avoid both extremes and build public trust



Operating Reserve

- Unrestricted funds for day-to-day needs or unexpected events
- Generally equal to 6 to 12 months of annual operating expenditures (“O&M”)
- Often during periods of large spending, the reserves can drop below the target level, but the plan should allow for a movement back to the average
- FY 2024 O&M \$13,437,280^(*) (180 Days or 50% = \$6,718,640)
- FY 2024 cash \$14,587,345 less restricted cash of \$11,939,056 = \$2,648,289 (19.7% of annual O&M)

Note: (*) Annual O&M Excluding Annual Depreciation

Rate Stabilization Fund

- Acts as a buffer against sharp revenue fluctuations and declines in debt service coverage
- Generally equal to 15 to 25% of annual debt service
- Currently Authority has no debt service
- These are not restricted dollars and can be used for any legal purpose
- Often included when calculating the unrestricted operating reserve target

Capital Reserve

Can create an actual fund or simply be a calculation of the various sources of funding available to meet your capital plan including:

- “Pay-As-You-Go” PAYGO dollars contributed while monitoring operating reserves for target levels
- Deposit of bond or loan proceeds
- Capital funds
- Connection fees
- Restricted funds such as development impact fees or capacity charges

Fiscal Year	2026	2027	2028	2029	2030
Sewer CIP					
Beginning Balance	\$67,445	\$0	\$0	\$0	\$10,764
Deposit of Bond / Loan Proceeds	-	66,340	50,627	57,000	-
Transfer In from Sewer Operating Fund	11,000	11,500	12,000	13,000	14,000
Transfer In from Sewer Connection Fee Fund	349	1,800	-	-	-
Transfer In from Sewer Capital Fund	-	-	11,937	-	40,128
Less: Capital Improvement Projects	(78,794)	(79,640)	(74,564)	(59,236)	(64,892)
Ending Balance	\$0	\$0	\$0	\$10,764	\$0

Replacement and Rehabilitation Reserve

- Used for renewal of assets with shorter useful lives such as vehicles, pumps and electronics
- Can use annual depreciation (FY 2024 = \$3,755,565) as a funding target or use a more refined asset management model that tracks the age and condition of each asset

Asset	Original Cost	Current Cost	Service Life (Yrs)	Annual R & R Deposit
Computer Equip.	\$50,000	\$60,000	4	\$15,000
Comm. Equip.	\$150,000	\$200,000	10	\$20,000
Vehicles	\$600,000	\$800,000	10	\$80,000
Totals	\$800,000	\$1,060,000		\$115,000

Emergency Capital Reserve

- Assist in recovering from natural disasters or other emergencies
- Typically, 3% to 5% of total system value
- Need to discuss the risk of natural disasters, extreme weather, vulnerability of critical facilities and the availability of other funds
- Current system value = \$233,543,129
- 3% of system value = \$7,006,294

Restricted Reserves

- Legally or contractually limited to specific uses for example:
 - Capital Sewer and Connection Fees (FY 2024 = \$11,939,056)
 - Debt service reserve fund related to bonds or loans
 - Currently no debt obligations paid from system net revenue

Capital Planning and Reserve Use

- Capital planning is central to the Agency's long-term success. A well-developed Capital Improvement Program ("CIP") identifies system needs over a multi-year period and matches those needs with available funding sources
- Reserves play an important role here, especially under the "pay-as-you-go" or PAYGO model, where reserves are used directly to fund infrastructure projects. This approach can reduce reliance on debt and help lower long-term financing costs.
- However, borrowing can also be appropriate, particularly for large, long-lived assets
- Most agencies use a blended approach, combining reserves with debt based on affordability, interest rates, and overall reserve levels. The key is to maintain flexibility while managing costs and risks responsibly.

Reserves, Credit Ratings and Debt Service Coverage

- Maintaining healthy reserve levels is also a key factor in securing favorable credit ratings. Agencies like S&P Global Ratings assess a utility's financial strength based in part on its reserve policies and liquidity. These ratings influence the interest rates the Agency will pay when issuing bonds. In fact, reserve-related metrics can account for up to 40 percent of a utility's overall credit profile.
- Strong reserves support higher credit ratings, which in turn helps lower borrowing costs and signal prudent financial management to customers and investors alike
- Debt service coverage is net revenues (gross revenue less O&M) divided by debt service
 - Each bond or loan obligation will have a target debt service coverage known as a Rate Covenant
 - Each bond or loan obligation will have restrictions for entering into future debt obligations known as an Additional Bonds Test

QUESTIONS / DISCUSSION

