



FALLBROOK PUBLIC UTILITY DISTRICT
MEETING OF THE FISCAL POLICY AND INSURANCE COMMITTEE

AGENDA

TUESDAY, DECEMBER 4, 2018
2:00 P.M.

FALLBROOK PUBLIC UTILITY DISTRICT
990 E. MISSION RD., FALLBROOK, CA 92028
PHONE: (760) 728-1125

If you have a disability and need an accommodation to participate in the meeting, please call the Secretary at (760) 728-1125 for assistance so the necessary arrangements can be made.

Writings that are public records and are distributed during a public meeting are available for public inspection at the meeting if prepared by the local agency or a member of its legislative body or after the meeting if prepared by some other person.

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL

PUBLIC COMMENT

II. ACTION / DISCUSSION -----(ITEMS A-B)

A. REVIEW RATE PRESENTATION

B. MANAGEMENT OF THE PROCEEDS FROM THE SALE OF THE SANTA MARGARITA PROPERTY

III. ADJOURNMENT OF MEETING

DECLARATION OF POSTING

I, Mary Lou West, Secretary of the Board of Directors of the Fallbrook Public Utility District, do hereby declare that I posted a copy of the foregoing agenda in the glass case at the entrance of the District Office located at 990 East Mission Road, Fallbrook, California, at least 72 hours prior to the meeting in accordance with Government Code § 54954.2.


I, Mary Lou West, further declare under penalty of perjury and under the laws of the State of California that the foregoing is true and correct.

November 30, 2018
Dated / Fallbrook, CA

Mary Lou West
Secretary, Board of Directors

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M E M O

TO: Fiscal Policy and Insurance Committee
FROM: David Shank, Assistant General Manager/CFO 
DATE: December 4, 2018
SUBJECT: Management of the Proceeds from the Sale of the Santa Margarita Property

Purpose

The District is set to close escrow on the sale of the Santa Margarita property on December 14, 2018. In preparation for the close of escrow, the Committee must finalize the flow of funds for the sale proceeds.

Summary

The Committee met with staff in November and developed a recommendation for the use of the proceeds from the property sale. The Committee's recommendation to the Board is as follows:

- **Fund the Water Rate Stabilization Reserve** – While the project is anticipated to produce water every year, the amount of water produced is expected to vary each year based upon the regions hydrological conditions. While the revenue/production of the plant will vary, the District's costs related to the plant are fixed. This means that when the plant is not producing water, the District must still pay for the plant and purchase additional wholesale water. This will increase the volatility of the District's cost of water. The rate stabilization reserve will mitigate the volatility in the District's cost of water by providing a funding source for the plant costs during periods of reduced water production.

As discussed in the 2017 Rate Study Report, a reserve equal to 2-years of debt service is to be established. Two years of debt service, based upon the initial budgeted project cost of \$45 million, is \$5.4 million. The sale of the property provides a unique opportunity to fund this reserve with no rate impact. Establishing a reserve this size for the District would take many years and require rate increases to fund it. Once funded, during years where the water production levels are less than projected reserve draws will be made to fund plant revenue shortfalls. In years where production is higher than projected, funds will be put into the reserve if it is less than its target level.

- **Fund the Pension 115 Trust** – The District will contribute to the existing 115 Pension Trust. Funds would be invested under the Trust's investment strategy and accumulated in the Trust, which can be used to make pension payments. This would take advantage of the more diverse investment options available to the Trust and not available to the District under the State's investment code.

The investment earnings rate of the trust will vary based upon market conditions but it is expected to achieve an earnings rate similar to CalPERS.

With the proceeds from the sale scheduled to be delivered on December 14, 2018, staff are recommending the following transfers be executed.

- **Rate Stabilization Fund** – This reserve will be funded by the transfer and tracked as part of the District’s reserves. A separate line-item will be added to the Treasurer’s report showing the balance, which will be kept at the \$5.4 million reserve amount. These funds will be transferred to PFM for inclusion in the District’s managed investment portfolio.
- **Pension 115 Trust** – The remaining amount of proceeds from the sale will be transferred into the PARS Pension Trust in four (4) equal amounts between December 2018 and June 30, 2019.

Recommended Action

This is a discussion item and no action is required.