

**SPECIAL BUDGET ADVISORY COMMITTEE MEETING
WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA
4040 PARAMOUNT BLVD., LAKEWOOD, CA., 90712
11:30 A.M., TUESDAY, JULY 9, 2019**

REVISED AGENDA

Each item on the agenda, no matter how described, shall be deemed to include any appropriate motion, whether to adopt a minute motion, resolution, payment of any bill, approval of any matter or action, or any other action. Items listed as "For information" or "For discussion" may also be the subject of an "action" taken by the Board or a Committee at the same meeting.

- 1. DETERMINATION OF A QUORUM**
- 2. PUBLIC COMMENT**
Pursuant to Government Code Section 54954.3
- 3. APPROVE THE MINUTES OF THE SPECIAL MEETING OF MARCH 22, 2019**
Staff Recommendation: Approve the minutes as submitted.
- 4. APPROVE THE MINUTES OF THE SPECIAL MEETING OF JUNE 25, 2019**
Staff Recommendation: Approve the minutes as submitted.
- 5. ELECTION OF OFFICERS**
Staff Recommendation: For discussion and possible action.
- 6. RESERVE FUND POLICY**
Staff Recommendation: For discussion and possible action.
- 7. ADJOURNMENT**
The Committee will adjourn to its next regular meeting.

In compliance with the Americans with Disabilities Act (ADA), if special assistance is needed to participate in the meeting, please contact Brandon Mims, Deputy Secretary at (562) 921-5521 for assistance to enable the District to make reasonable accommodations.

All public records relating to an agenda item on this agenda are available for public inspection at the time the record is distributed to all, or a majority of all, members of the Board. Such records shall be available at the District office located at 4040 Paramount Boulevard, Lakewood, California 90712.

Agendas are available at the District's website, www.wrd.org.

EXHAUSTION OF ADMINISTRATIVE REMEDIES – If you challenge a District action in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the Deputy Secretary at, or prior to, the public hearing. Any written correspondence delivered to the District office before the District's final action on a matter will become a part of the administrative record.



MEMORANDUM
ITEM NO. 3

DATE: JULY 9, 2019

TO: BUDGET ADVISORY COMMITTEE (BAC)

FROM: ROBB WHITAKER, GENERAL MANAGER

SUBJECT: APPROVE THE MINUTES OF THE SPECIAL MEETING OF MARCH 22, 2019

SUMMARY

A special meeting of the Budget Advisory (BAC) Committee of the Water Replenishment District of Southern California was held on Tuesday, March 22, 2019 at 11:00 A.M. in the District Office located at 4040 Paramount Boulevard, Lakewood, California, 90712. Chairman Rob Beste called the meeting to order.

FISCAL IMPACT

None

BUDGET ADVISORY COMMITTEE (BAC) RECOMMENDATION

Approve the minutes as submitted.

**MINUTES OF MARCH 22, 2019
SPECIAL BUDGET ADVISORY COMMITTEE MEETING
WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA**

A special meeting of the Budget Advisory Committee (BAC) of the Water Replenishment District of Southern California was held on Tuesday, March 22, 2019 at 11:00 A.M. in the District Office located at 4040 Paramount Boulevard, Lakewood, California, 90712. Chairman Rob Beste called the meeting to order.

1. DETERMINATION OF A QUORUM

Committee Chair Rob Beste of the City of Torrance announced the presence of a quorum, which in addition to himself included; Mark Andersen, City of Lomita; James Crawford, California Water Services Company; Frank Heldman – Metropolitan Water District; Chris Repp, City of Los Angeles (DWP); Jason Wen, City of Lakewood.; Dean Wang, Long Beach Water Department; Paul Fujita – Long Beach Water Department

WRD: Robb Whitaker, Brandon Mims, Scott Ota

2. PUBLIC COMMENT

Pursuant to Government Code Section 54954.3
None.

3. APPROVE THE MINUTES OF THE SPECIAL MEETING OF APRIL 18, 2018

Upon a motion duly noted by Jason Wen and seconded by Frank Heldman, the Budget Advisory Committee approved the minutes as submitted.

4. APPROVE THE MINUTES OF THE SPECIAL MEETING OF MARCH 12, 2019

Upon a motion duly noted by James Crawford and seconded by Chris Repp, the Budget Advisory Committee approved the minutes as submitted.

5. 2019-20 DRAFT BUDGET AND RESERVE FUND POLICY

Chief Financial Officer Scott Ota presented proposed reserve fund balances for the Committee's consideration and explained how the District must have a 120% debt service coverage. Mr. Ota then stated that the District would have an additional \$3 million to budget annually. Discussion followed.

The Committee suggested removing the Emergency Capital Repair Reserve Fund. Discussion followed.

Upon a motion duly noted by Frank Heldman, seconded by Dean Wang, it was

RESOLVED: The Budget Advisory (BAC) Committee recommended changing the target minimum of the Operating Reserve from two months of average recurring costs to three months, removing the Emergency Capital Repair Reserve Fund, changing the Equipment Replacement Reserve's name to Equipment Replacement Fund, and checking to see if the Debt Service Reserve can be incorporated into the Operating Reserve.

6. DISCUSSION ON FUTURE STRUCTURE OF THE BUDGET ADVISORY (BAC) COMMITTEE

Mr. Ota stated that the District no longer needs to use California State Water Code §60233 parameters. Mr. Ota then requested direction from the Committee on the possibility of staggering and extending term durations. The Committee recommended extending term durations to four years and holding two elections for Category A Small Pumpers, two for Category B Medium Pumpers, and three for Category C Large Pumpers.

Next, Mr. Ota discussed changing the date to allow the BAC more time to review the District's budget and reserve funds. The Committee recommended changing the date to ten days prior to the closing of the Public Hearing rather than the opening of the Public Hearing.

7. ADJOURNMENT

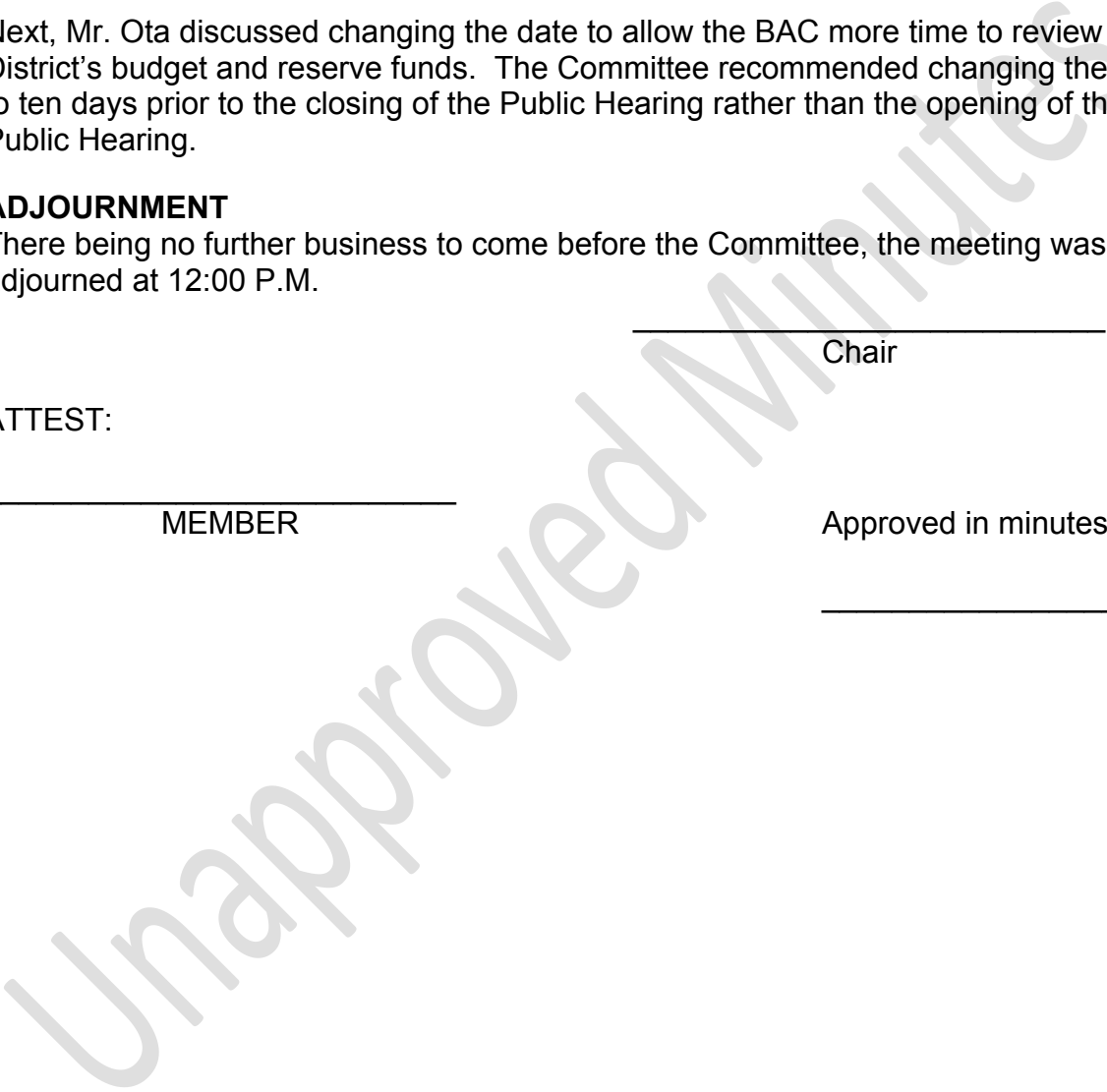
There being no further business to come before the Committee, the meeting was adjourned at 12:00 P.M.

Chair

ATTEST:

MEMBER

Approved in minutes of:





MEMORANDUM
ITEM NO. 4

DATE: JULY 9, 2019

TO: BUDGET ADVISORY COMMITTEE (BAC)

FROM: ROBB WHITAKER, GENERAL MANAGER

SUBJECT: APPROVE THE MINUTES OF THE SPECIAL MEETING OF JUNE 25, 2019

SUMMARY

A special meeting of the Budget Advisory Committee (BAC) of the Water Replenishment District of Southern California was held on Tuesday, June 25, 2019 at 1:43 P.M. in the Silverado Conference Room located at 4040 Paramount Boulevard, Lakewood, California, 90712. Jason Wen of the City of Lakewood called the meeting to order.

FISCAL IMPACT

None

BUDGET ADVISORY COMMITTEE (BAC) RECOMMENDATION

Approve the minutes as submitted.

**MINUTES OF JUNE 25, 2019
SPECIAL BUDGET ADVISORY COMMITTEE MEETING
WATER REPLENISHMENT DISTRICT OF SOUTHERN CALIFORNIA**

A special meeting of the Budget Advisory Committee (BAC) of the Water Replenishment District of Southern California was held on Tuesday, June 25, 2019 at 1:43 P.M. in the Silverado Conference Room located at 4040 Paramount Boulevard, Lakewood, California, 90712. Jason Wen of the City of Lakewood called the meeting to order.

1. DETERMINATION OF A QUORUM

Jason Wen of the City of Lakewood announced the presence of a quorum, which in addition to himself included; Mark Andersen, City of Lomita; James Crawford, California Water Services Company; Frank Heldman – Metropolitan Water District; David Pettijohn - City of Los Angeles (DWP); Gabriel Gomez – Liberty Utilities; Anatole Falagan – Long Beach Water Department; Rafael Villegas - City of Los Angeles (DWP); Daniel Armendariz - California Water Services Company; Andy Darlark – City of Torrance

WRD: Robb Whitaker, Rob Beste; Brian Thomas, Tenisha Simeon

WRD Directors: John Allen, Vera Robles-Dewitt, Robert Katherman

2. PUBLIC COMMENT

Pursuant to Government Code Section 54954.3

None.

3. APPROVE THE MINUTES OF THE SPECIAL MEETING OF MARCH 22, 2019

Mr. Wen announced that the Committee would delay approval of the minutes until the next BAC meeting.

No action was taken.

4. FUTURE STRUCTURE OF THE BUDGET ADVISORY COMMITTEE (BAC)

WRD General Manager Robb Whitaker provided an overview on this item. Mr. Whitaker stated that the administrative code would need revision to reflect staggered, four-year terms for the Committee.

The Budget Advisory Committee unanimously recommended that two large producers, one medium producer, and one small producer have their respective terms extended by two years from the 2020 election cycle and be elected as part of the January 2022 election cycle and also that the Administrative Code be revised as follows: "The committee shall consist of seven members who shall serve a four-year term and who shall be elected from among representatives of producers who are owners or operators of groundwater producing facilities who are subject to the replenishment assessment pursuant to Section 60317."

5. 2018/19 FISCAL YEAR FINANCIAL PROJECTION

WRD Interim Chief Financial Officer Brian Thomas presented on pumping and replenishment revenues, stating that they were down and operating income was roughly \$14.7 million. Discussion and comments followed.

Mr. Thomas stated that non-operating revenue included property taxes, interest income, and offset interest expense. Discussion followed.

WRD Board President John D.S. Allen requested that BAC members receive an email copy of the presentation.

Mr. Whitaker stated that there will eventually be overlap from the Technical Advisory Committee with the Budget Advisory Committee.

6. RESERVE FUND POLICY

Mr. Whitaker provided a brief overview before Mr. Thomas reviewed various WRD reserves. Discussion followed.

The Committee requested that this item be brought back to the next meeting scheduled for July 9th, 2019.

7. ADJOURNMENT

There being no further business to come before the Committee, the meeting was adjourned at 2:47 p.m. to its next meeting scheduled for July 9th, 2019.

Chair

ATTEST:

MEMBER

Approved in minutes of:



MEMORANDUM

ITEM NO. 6

DATE: JULY 9, 2019

TO: BUDGET ADVISORY COMMITTEE

FROM: ROBB WHITAKER, GENERAL MANAGER

SUBJECT: RESERVE FUND POLICY

SUMMARY

The level of reserves maintained by a utility is an important component of short and long-term financial management, is a key consideration in the rate-setting process. Further, the level of reserves is one of the key financial metrics used by credit rating agencies when evaluating the financial strength of an organization. Prudent reserves are an important financial tool that benefits both WRD and the pumpers. A prudent level of reserves helps mitigate financial risks due to changes in pumping levels, unexpected cost increases, and emergencies.

Given recent changes in legislation (SB 963), it is important that WRD establish a reserve policy and adopt formal practices to ensure that reserves meet WRD's financial and operational objectives. Among other things, the Reserve Policy articulates:

- How these balances are established
- How funds are used
- How the adequacy of each respective reserve fund balance is determined
- How reserves are replenished when used

Once reserve targets are established, they should be reviewed annually during the budgeting process to monitor current levels and evaluate conformance with the policy. Decisions can then be made to maintain, increase, or spend down reserve balances, as appropriate, with an understanding of the impact of such decisions to the upcoming budget period and WRD's long-term financial plan.

Staff has reviewed reserve fund guidelines from the Government Finance Officers Association (GFOA), American Water Works Association (AWWA), California Special Districts Association (CSDA) and the National Advisory Council on State and Local Budgeting (NACSLB) in developing the District's Reserve Fund Policy.

With SB 963 removing any limit on District reserve funds, this annual analysis of funds is an important part of responsible financial planning, particularly as WRD transitions from an agency that produces water to one that produces water and operates and maintains three capital facilities.

The recommended policy reflects comments from the Budget Advisory Committee (BAC) and the Finance/Audit Committee. The policy does not include restricted reserves held in trust by US Bank (e.g. bond proceeds, CalTrans Trust, etc.) The policy identifies six reserve funds:

1. **Operating Reserve.** The operating reserve is an unrestricted reserve used to stabilize finances in the event of lower than expected sales, unbudgeted expenses and other unforeseen events.
2. **Debt Service Reserve.** This restricted fund is established pursuant to the covenants in WRD's State Revolving Fund Loan.
3. **Equipment Replacement Reserve Fund.** The Equipment Replacement Fund is used to fund periodic replacement of assets with expected useful lives of three to twenty years. Effective use of a replacement reserve helps to stabilize annual budgets, reducing the need for large expenditures as equipment is replaced.
4. **Safe Drinking Water Program Fund.** The Safe Drinking Water Fund is used to account for, and fund, loans and grants to help clean up the groundwater basin. This fund will be a "revolving" fund, to be replenished by repayment of outstanding loans as well as any needed funding from WRD.
5. **Well Construction and Rehabilitation Program Fund.** This fund would be used provide zero loans to pay for well construction and rehabilitation. Qualifying projects would assist groundwater producers' ability to utilize their full groundwater extraction rights, reducing demands for imported water. As with the Safe Drinking Water Program Fund, this would be a revolving fund, replenished by repayment of loans as well as any additional contributions by WRD.
6. **Water Purchase Carryover Fund.** The Water Purchase Carryover Fund is funded with revenues that would have been used to purchase water to replenish the basin when imported water is unavailable for purchase. This reserve is funded with remaining revenues that had been budgeted for purchasing imported water or other supplies but were not expended for this purpose due to the lack of availability of water.

The Finance/Audit Committee reviewed the reserve policy and, based upon staff and BAC recommendations, has recommended the targets shown in Table 1 for each of the funds. The Finance/Audit Committee incorporated the following specific BAC recommendations:

1. Operating Reserve. The BAC suggested increasing the Operating Reserve to include 3 months of operations.
2. Debt Service Reserve. The District's bond covenants required the District to keep one year of debt service payments for the 2004, 2008 and 2011 debt. When the District refinanced those funds through the 2015 revenue bond, the covenants no longer required a reserve of one year of debt service payments. The SRF loan is the only debt that requires one year of debt service held in reserve. Therefore, the BAC suggested decreasing this reserve fund to include only the SRF required amount of \$3.2M.

3. Emergency Capital Repair Reserve – This is related to any emergency repairs needed by the District. The original staff proposal included establishing a reserve for emergency capital repairs. The BAC and the Finance/Audit Committee suggested eliminating that reserve in favor of a larger Operating Reserve. This would provide more financial flexibility to fund both capital and operating expenditures.
4. Water Purchase Carryover Fund – No proposed minimum balance from BAC.

The BAC also requested that WRD review the Equipment Replacement Fund to see if it could be reduced. As a result, the target level has been reduced to \$5.0 million from the original staff proposal of \$15.0 million.

Table 1 reflects these comments and suggestions. These targets and the amount of money in each fund will be reviewed each year as part of the annual budget process.

Reserve Fund	Description	Target
Operating Reserve	Three months operating expenses	\$20.4 Million
Debt Service Reserve	One year of principal and interest on the State Revolving Fund Loan	\$3.2 Million
Equipment Replacement Reserve Fund	Estimate of equipment replacement needs based on WRD's depreciation schedules	\$5.0 Million
Safe Drinking Water Program Fund	Estimated need to sustain funding for eligible projects.	\$5.0 Million
Well Construction and Rehabilitation Loan Program	Estimated need to sustain funding for eligible projects.	\$7.5 Million
Water Purchase Carryover Fund	There would be no set target. This Fund would be equal to amounts remaining after funding water purchases and other activities needed to replenish the basin.	NA

Table 1. Target Amounts for Reserve Funds

Table 2 shows projected balances at June 30, 2019, given current reserve levels and how reserves would be reallocated to be consistent with the proposed reserve policy. The projected balances are based financial results through March 31, 2019. But, replenishment assessment revenues are trending lower than budget due to lower than anticipated pumping levels resulting from the higher than average rainfall in winter and spring. As such, final year-end results may be lower than shown in Table 2.

Reserve Fund	Estimated Balance at June 30, 2019 (1)	Balances Consistent with Proposed Reserve Fund
Operating Reserve	\$8.0 Million	\$20.4 Million
Debt Service Reserve	\$14.8 Million	\$3.2 Million
Equipment Replacement Reserve Fund	\$4.8 Million	\$5.0 Million
Safe Drinking Water Program Fund	\$3.7 Million	\$5.0 Million
Well Construction and Rehabilitation Loan Program	\$1.5 Million	\$7.5 Million
Water Purchase Carryover Fund	\$18.7 Million	\$10.4 Million
Totals	\$51.5 Million	\$51.5 Million

(1) Based on March 31, 2019 financial activity. Actual results will vary.

Table 2. Projected Reserve Fund Balances vs. Proposed Targets

Table 2 assumes that all reserves will be funded at their recommended targets beginning in fiscal year 2019/20. Monies from the Debt Service Reserve Fund and Water Purchase Carryover Fund are reallocated to meet the targets, leaving an estimated \$10.4 million in the Water Purchase Carryover Fund for future needs. Should actual year-end results be lower than anticipated, the Water Purchase Carryover Fund would be lower than shown Table 2.

FISCAL IMPACT

Adopting the Reserve Policy, proposed targets and funding levels will improve financial planning, improve transparency and strengthen WRD's financial profile.

STAFF RECOMMENDATION

For discussion and possible action.

RESERVE FUND POLICY

The purpose of this Reserve Fund Policy for the Water Replenishment District of Southern California (WRD or District) is to describe the District's need and use of reserves to support the organization's financial needs. Reserves are an important tool to ensure financial sustainability and to mitigate impacts on WRD and the groundwater producers.

This Reserve Fund Policy will be implemented in conjunction with the other financial policies of the organization and is intended to support the goals and strategies contained in those related policies and in strategic and operational plans.

As part of the District's effort to increase transparency, the Board of Directors approved adding the Budget Advisory Committee (BAC) to the District's Administrative Code so the BAC can continue to be used to review the annual budget, as well as the District's reserve fund policy.

The following list explains several considerations for setting appropriate levels of operating reserves¹:

- Bond/Loan Covenants – bond/loan covenants often define required minimum operating reserve levels in addition to restricted debt service reserves. In the case of WRD, the 2016 State Revolving Fund (SRF) loan of \$80 million, which has an interest rate of 1.0%, requires the District to maintain have 120% debt service coverage without the use of reserves. In addition, the loan covenants require WRD to maintain a debt service reserve fund equal to or greater than one year's debt service.
- Credit rating objectives – unrestricted reserves are a key consideration in establishing a bond rating. Each of the major rating agencies includes available reserves (unrestricted reserves) as a metric used in judging the credit strength of the agency. Reserves are a measure of liquidity and the utility to meet unforeseen events such as earthquakes, droughts, and other weather-related events (e.g., greater rain and cooler weather leading to lower pumping). Rating agencies look at the number of days cash the utility holds to assess how much financial flexibility the utility maintains. Days cash is equal to the amount of available reserves divided by annual operating expenses times 365. The District is rated AA+ by both Standard & Poor's and Fitch Ratings. The level of reserves is an important reason for these strong credit ratings.
- Rate structure – major impacts to the District's rate structure include annual pumping in the Central and West Coast Basins, regional conservation efforts, water quality issues and legislation (such as the previous Water Code §60290).

The District's reserves will be segregated into separate categories as follows:

¹ Source: Cash Reserve Policy Guidelines from the American Water Works Association

1. Operating Reserve
2. Debt Service Reserve
3. Equipment Replacement Reserve
4. Safe Drinking Water Fund
5. Well Replacement and Rehabilitation Fund
6. Water Purchase Carryover Reserve

Cash, investments and reserve balances will be reported to the Finance/Audit Committee and Board of Directors and included in the regular financial reports.

OPERATING RESERVE

Purpose of Fund - An operating reserve is an unrestricted fund balance set aside to stabilize finances by providing a cushion against unexpected events, losses of income, and unbudgeted expenses. Operating reserves are not used to cover a long-term shortfall or structural deficit. The Operating Reserve can allow WRD to weather serious bumps in the road by providing a source of funds while the District implements actions and strategies to address these one-time or temporary events. It is also a benefit to the groundwater producers as the Operating Reserve can be used to offset the need to have large and varying increases in the Replenishment Assessment due to a one-year event. Ideally, WRD would never draw upon its Operating Reserve, and if it does, it would only be used to solve temporary problems, not structural financial problems.

Reserve Target - The District's Operating Reserve is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as operating reserve will be established in an amount sufficient to maintain ongoing operations and programs for a set period of time, measured in months. The operating reserve serves a dynamic role and will be reviewed and adjusted in response to internal and external changes.

The Government Finance Officers Association (GFOA), recommends a minimum Operating Reserve Fund equal to two months of average recurring operating costs or revenues².

Additionally, the American Water Works Association (AWWA) states that the most common metric used in evaluating operating reserve levels is time; number of days or months of operating expenses. While they do not provide an actual recommendation, they provide recommended reserve levels from Water Environment Federation (one to three months of operating costs) and International City/County Management Association (1-2 months of expenses).³ The AWWA recommendation levels are similar to those of the GFOA. The rating agencies also provide guidance for the AA rating category, ranging from 90 days cash to 180 days cash.

As such, the reserve target for operating reserves will be three months (90 days) cash.

² Source: GFOA website: <http://www.gfoa.org/fund-balance-guidelines-general-fund>

³ Source: Cash Reserve Policy Guidelines for 2018 from the American Water Works Association

In addition to calculating the actual operating reserve at the fiscal year-end, the operating reserve fund target will be calculated each year during the annual budget process. As stated in Water Code §60233(a), the Budget Advisory Committee (BAC) will review the annual budget, as well as the reserve funds maintained by the District.

Intended Use of Reserve - The operating fund should be used for non-recurring operating expenses at the discretion of the Board of Directors.

DEBT SERVICE RESERVE FUND

Purpose of Fund – The debt service reserve fund is necessary to meet bond and/or loan covenants. These covenants often require the borrower to hold an amount equal to one year’s worth of principal and interest payments or an amount equal to the highest year of principal and interest (maximum annual debt service.) Such reserves provide additional comfort to investors regarding the District’s ability to meet its annual principal and interest payments.

Reserve Target – The Debt Service Reserve Fund is used to set aside funds for future use to meet the District’s debt service obligations. Currently, the District has three major debt instruments:

- *State Revolving Fund (SRF) – Prop 1 Funding*
The District entered into a loan agreement with the State Water Resources Control Board that requires the District to “establish a restricted Reserve Fund, held in the District Fund, equal to one year’s debt service...⁴” This fund must be maintained for the full term of the Agreement. One year of principal and interest for the SRF loan is **\$3.2 million** (rounded up to the nearest hundred thousand). In a fiscal emergency, this reserve fund is intended to provide security to the bondholders while allowing the District time to address any financial issues causing non-payment.
- *2015 Revenue Bonds*
In 2015, the District issued \$148,345,000 of debt for the refunding of the outstanding 2004, 2008 and 2011 Certificates of Participation (COPs) and \$69,500,000 of new money for the District’s capital improvement plan. The District does not have a bond covenant requiring it to maintain a debt service reserve.
- *2018 Revenue Bonds*
In 2018, the District issued \$65,785,000 in December 2018. As with the 2015 Revenue Bonds, the District has not covenanted to maintain a debt service reserve. As such, **the reserve target for the debt service reserve fund is equal to one year of principal and interest on the 2016 SRF Loan.**

Intended Use of Reserve – This fund shall be maintained for the term of the debt instrument and can be used to pay principal and interest payments if the District is unable to do so or to pay the last year of principal and interest on the loan.

⁴ Source: California Clean Water Loan Agreement, Appendix D

EQUIPMENT REPLACEMENT RESERVE FUND

Purpose of Fund – An equipment replacement fund is established to fund the periodic replacement of assets with relatively short useful lives. Assets defined as equipment include vehicles, pumps, computer equipment, office equipment, mechanical equipment, laboratory equipment, and other similar equipment with an expected life typically in the range of as few as three to as many as twenty years⁵. The use of an equipment replacement reserve helps to smooth out budget impacts over years as equipment reaches the end of its useful life.

Reserve Target – There are two general methods of determining equipment replacement funds:

Method 1 – Annual deposits based on depreciation of existing equipment and maintenance of a minimum balance based on a percentage of the value of equipment. Annual deposits are determined based on an itemized schedule of equipment, listing the type of equipment, the original cost, the expected service life, and the annual deposit to the equipment replacement fund. The total annual deposit is the sum of the annual deposits for each asset. When an asset on the equipment replacement fund list is replaced, the amount is drawn from the fund, and the schedule of annual deposits is adjusted accordingly to reflect the value and service life of the new asset(s).

Method 2 – A minimum balance in the equipment reserve fund is often determined based on a percentage of the value of equipment assets. The more equipment maintained by a utility, the lower the recommended percentage of value of the equipment assets that are maintained in reserve. In determining the recommended percentage, the utility should consider the value of the costliest piece of equipment on the replacement schedule as it represents the maximum cost to replace an unplanned equipment item.

With the District's Computerized Maintenance Management System (CMMS), the District will obtain all funding requirements through the system to set the target reserve level, using Method 1 of the AWWA's Cash Reserve Policy Guidelines.

This target will be updated annually to reflect actual equipment needs.

Intended Use of Reserve – This fund shall be used for equipment replacement.

SAFE DRINKING WATER FUND

Purpose of Fund – The Safe Drinking Water program is intended to promote the cleanup of groundwater resources at specific well locations through the installation of

⁵ Source: Cash Reserve Policy Guidelines for 2018 from the American Water Works Association

wellhead treatment facilities at existing production wells. Focused on VOCs, the District provides grant funding for affected wells and no interest, 10-year loans for other constituents of concern.

Reserve Target – Wellhead treatment varies in cost depending upon various criteria. Capital costs for wellhead facilities range from \$800,000 to \$2,500,000. As such, **the target for the Safe Drinking Water Fund will be set based on the expected need of \$5 million in 2019/20.**

Intended Use of Reserve – This fund shall be used in accordance with the guidelines set forth by the Board of Directors for the District’s Safe Drinking Water Program. This fund is a revolving fund, replenished by loan repayments as well as funds from WRD.

WELL CONSTRUCTION AND REHABILITATION FUND

Purpose of Fund – The District has developed a Well Construction and Rehabilitation Loan Program to assist groundwater producers improve their ability to utilize their full groundwater extraction rights and reduce their need for imported water. The Program provides no interest, 10-year loans for groundwater production well construction and/or rehabilitation.

Reserve Target – Well construction and/or rehabilitation expenditures vary in cost depending upon various criteria. Based on current estimates from groundwater producers, average construction costs for a new well can be up to \$7,500,000. As such, **the target for the Well Construction and Rehabilitation Fund will be set based on the expected need of \$7.5 million in 2019/20.**

Intended Use of Reserve – This fund shall be used in accordance with the guidelines set forth by the Board of Directors for the District’s Well Construction and Rehabilitation Loan Program. This fund is a revolving fund, replenished by loan repayments as well as funds from WRD.

WATER PURCHASE CARRYOVER FUND

Purpose of Fund - The District’s primary responsibility is to replenish the groundwater basin. During each fiscal year, the WRD purchases imported and recycled water for replenishment either through the Montebello Forebay and San Gabriel River spreading grounds or through the seawater intrusion barrier systems. If water is unavailable for purchase, budgeted revenues will not be used. Instead, these funds will be carried over to future years to ensure WRD’s ability to acquire or develop water supplies to ensure the Central and West Coast groundwater basins are replenished. In the years when water is unavailable for purchase, the District will track budgeted expenses to actual expenses with unexpended monies placed in the Water Purchase Carryover Account for use in the future.

Reserve Target – The account will be funded through budget surpluses made available due to lack of available water. The balance of the Water Purchase Carryover Fund will be reviewed each year during the budget process. As such, **there is not a target for the Water Purchase Carryover Fund, with no minimum or maximum limiting the Water Purchase Carryover Fund.**

Intended Use of Reserve – This fund shall be used for the purchase of recycled or imported water or for developing water supplies.

ACCOUNTING FOR RESERVES

Reserve Funds will be recorded in the accounting system and financial statements. The Operating Reserve Fund will be funded and available in cash or cash equivalents. Operating reserves will be maintained separately for accounting purposes but will be commingled with the general cash and investment accounts of the organization.

Reserves are presented to the Finance/Audit Committee for review and forwarded to the Board of Directors for approval on a monthly basis. In addition, the Budget Advisory Committee will review the reserve levels and the use of reserves each year during the budget process.

FUNDING OF RESERVES

The Operating Reserve Fund will be funded with unrestricted operating funds. The Board of Directors may, from time to time, direct that a specific source of revenue be set aside for operating reserves.

As part of the budget process, the District will determine appropriate reserve levels consistent with this Policy.

AUTHORITY TO USE OPERATING RESERVES

The General Manager will identify the need for access to reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. Determination of need requires analysis of the sufficiency of the current level of reserve funds, the availability of any other sources of funds before using reserves, and evaluation of the time period for which the funds will be required and replenished.

The General Manager will submit a request to use reserve funds through the District's Committee structure with final approval by the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. WRD's goal is to replenish the funds used within 24 months to restore the Reserve Fund to the target amount.

REPORTING AND MONITORING

The General Manager and/or Chief Financial Officer is responsible for ensuring that all reserve funds are maintained and used as described in this Policy.

The Chief Financial Officer will maintain records of the use of funds and plan for replenishment of any reserves as necessary. If any Reserve Fund falls below its target, the Finance/Audit Committee and Board of Directors will receive periodic reports of progress to restore the fund to the target level. Further – reserve balances and targets will be discussed and approved during the annual budget process. This will include review and recommendations by the BAC.

RELATIONSHIP TO OTHER POLICIES

The District shall maintain the following board-approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Fund:

- Investment Policy, including risk tolerance
- Debt Service Policy
- Policies related to Operating and Capital Budgeting

REVIEW OF POLICY

This Policy will be reviewed by the Finance/Audit Committee, the Budget Advisory Committee (BAC) and the Board of Directors, at least annually during the budget process or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance/Audit Committee to the Board of Directors, after the Finance/Audit Committee has received recommendations from the BAC.