PRESENTATION, DISCUSSION AND APPROVAL
OF A DISTRICT RESERVES POLICY

Background

The Central Basin Municipal Water District (CBMWD) has a designated reserves policy adopted in December 2009 which provides general reserve guidance. The policy needs to be updated to provide greater transparency, accountability and definition to respond to current activities of the CBMWD.

Approach

Reserves are funds set aside to achieve District objectives, respond to operational uncertainties and respond to emergencies. Funds are generally kept in three (3) categories.

a. **Unrestricted, Undesignated:** May be allocated by the Board at any time for any lawful purpose of the District.

b. **Unrestricted, but Designated Funds:** There are funds set aside by the Board to achieve specific objectives or address specific District uncertainty or threats. The Board may reallocate these funds at any time by Board action. The funds may be comingle for financial management purposes.

c. **Restricted Funds:** These funds are permanently set aside to achieve specific objectives and may not be reassigned to another District purpose.

Staff analyzed the operations of the District, possible uncertainties in management, and possible emergencies the District could face. For each identified need, criteria is provided for sizing the reserve fund needed and the actual recommended size of the reserve fund provided. The sizing of the reserves should be reviewed annually, as conditions change. Any depletion of the reserve fund in a given year should be addressed in the next year’s budget cycle and the replenishment of the reserve funds done in the subsequent year or years depending upon the District’s needs.

**Designated Funds Recommended**

The following Designated Reserve funds are recommended:
a. **District Cash Flow Fund:** Sufficient funds for six months operating expenses. Current estimate $3.4 million. This is an emergency reserve in case of cash flow interruption or cost spike for any reasons. It also acts as a rate stabilization fund.

b. **Grant Cash Flow Fund:** Grants from Federal, State or regional sources often require the services contracted to execute the grant be paid for prior to billing the granting agency. Based upon current and anticipated grants, a $500,000 reserve could be needed.

c. **Election Reserve Fund:** Central Basin MWD Directors represent 300,000 to 400,000 citizens. Election costs average about $175,000 to $250,000 per contested seat. The upcoming 2016 election therefore would require $750,000. We propose to designate $750,000 in current reserves toward the election and budget zero each of the next two years. Subsequent years will require budgeting $250,000 to $375,000 per year if all seats are contested.

d. **Building Replacement Fund:** Major repairs or replacements should be anticipated for a building such as 6252 Telegraph Road. A building reserve fund of $300,000 is recommended.

e. **Legal Reserve Fund:** Public Agencies are subject to lawsuits and legal expenses for a variety of issues. Insurance can cover liability but may not cover all costs of defense and has a deductible. The Central Basin MWD will also need funds if it is a plaintiff alone or in concert with other water agencies. A legal reserve of $1,000,000 is recommended.

f. **Recycled Water System Repair and Replacement Fund:** The Recycled Water System has a replacement less depreciation value of approximately $50,000,000. Annual repair and replacement can range from $50,000 to repair a leak to $1 million or more to replace a pump station. A $1 million fund is recommended to be replenished regularly as depleted and appropriate.

g. **Recycled Water System Capital Improvement Fund:** Expansions to the Recycled Water System can be financed from designated reserves, grants and loans, or capital funding such as bonds or corporate notes. We recommend Central Basin MWD designate $3 million toward capital expansion to be replenished over time. We also recommend investigation of other capital options. Approximately $1 million in capital expenditures is planned for FY2015-2016.

h. **Emergency Fund:** Central Basin MWD will be impacted by emergencies such as earthquakes, fire, civil unrest, floods, droughts, etc. An emergency fund provides flexibility in helping the community respond to unforeseen emergencies. A $1 million emergency reserve is recommended.

Table 1 summarizes the recommended reserve funds.
Table 1
Central Basin MWD
Designated Reserve Funds

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Cash Flow Fund</td>
<td>$3,400,000</td>
</tr>
<tr>
<td>Grant Cash Flow Fund</td>
<td>$500,000</td>
</tr>
<tr>
<td>Election Reserve Fund</td>
<td>$750,000</td>
</tr>
<tr>
<td>Building Replacement</td>
<td>$300,000</td>
</tr>
<tr>
<td>Legal Reserve Fund</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Recycled Water System Repair/Replacement Fund</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Recycled Water System Capital Improvement Fund</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Emergency Funds</td>
<td>$1,000,000</td>
</tr>
<tr>
<td><strong>Total Designated Reserve Funds</strong></td>
<td><strong>$10,950,000</strong></td>
</tr>
</tbody>
</table>

**Restricted Reserve Funds**

Currently the District has two Restricted Reserve Funds permanently allocated to the stated purpose:

a. Bond Reserve Fund - $2.85 million set aside as an emergency fund to ensure one year of bond payments for the recycled water bonds. If not needed during the life of the bonds they are used to make the last bond payment.

b. The "Other Post Employment Benefit" or OPEB fund to address future benefit costs of retirees. CBMWD has $2.241 million restricted for this purpose.

**FISCAL IMPACTS:**

None.

**ENVIRONMENTAL COMPLIANCE:**

Not applicable.

**COMMITTEE STATUS:**

This item was reviewed by the Finance Committee on April 9, 2015 and was recommended for approval at the April 27, 2015 Board meeting.

**RECOMMENDED MOTION:**

That the Board adopts a policy of annual review of Reserves Fund levels, adequacies of accounts identified, and need for replenishment of any funds expanded, as identified in the memorandum.

**EXHIBITS:**

None.

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