

San Bernardino Valley Water Conservation District Policy

Policy Number 0001

Date: Revised 5/22/2018

Policy Name: District and Enterprise Reserve Policy

History: **Adopted** 1/2011 revised 4/15/2013, 9/11/13, 11/19/14, 4/22/15, 5/31/17, and 5/22/18

Application: All SBVWCD Employees, Board Members, Enterprises, Partners and Financial Advisors

GENERAL POLICY:

SBVWCD desires to better document and communicate its prudent reserve policy to identify the necessity, purpose, development, and use of District General and Enterprise reserves.

Additionally, the District needs to: 1) document a calculation methodology and/or maintained level of reserves for all existing and future needs within the agency where reserve funds are required and/or necessary; 2) allocate and separate fund excess for similar use, restrict transfer without Board approval. The policy addresses the following:

Consideration of the establishment and development/continuation of a reserve fund will be decided based on the following criteria:

- Purpose and need for the reserve fund;
- Availability and source of funds to continue, replenish or establish the reserve;
- Operating expenditures approved by annual budgets or Groundwater Charge process;
- Current and future emergency repairs, capital expenditures and debt service requirements;
- Board approval or changes to the reserve policy.

SBVWCD recognizes the importance of operating an agency or company with prudent reserve levels in place that provides for unanticipated/emergency costs, should they arise within a budgeted fiscal year. These reserves are developed with enterprise fund balances and charges. None of the District's minimal property tax allocation is included in these reserves. This policy was established in conformance with the California Special Districts Association "Special District Reserve Guidelines" and the Little Hoover Commission Report on reserves in 2000 and Report #239 in 2017. Reserve revenue would be set aside to avoid requesting significantly increased funding from year to year from groundwater charge entities or other revenue sources and to ensure that the District can perform required critical tasks and respond to emergencies. The reserves developed and managed as part of this policy are specific to water conservation and recharge needs that are not supported by regional or statewide infrastructure plans.

SCOPE:

The development of the enterprise model was approved and implemented based on the review of the District's operation and performance in prior fiscal years. The enterprise model requires a policy and process for transferring reserves. It is appropriate to identify and build a General Fund operating reserve to provide funding for both District particular contingencies and annual budget shortfalls. Not covered by this policy is the investment of reserve funds. This is contained in a separate detailed Statement of Investment Policy.

This policy will provide direction to staff in the following areas:

- Sources of funds and segregation of the accounts and reserves
- Level and/or target for a reserve;
- Limits placed on the use of reserves;
- Requirements for reporting trends for reserves
- Limitation of transfers without Board Approval;

SPECIFIC RESERVE PROVISIONS:

A. Groundwater Recharge Enterprise Reserve

The Groundwater Recharge Enterprise Reserve (GRER) shall be developed to fund general operating cash flow needs relative to the operation of the enterprise. Through the Groundwater Charge rate-setting process, Staff will informally coordinate with Groundwater Charge payees and Groundwater Council on the level rates and the reserve in accordance with this policy. Initially, it is proposed that the reserve level is set at an amount equal to 100% of the GRE operating budget or a target of \$1,250,000. Transfer of funds from the GRER will occur to cover the implementation of Groundwater related capital projects. These funds will be held in the Capital Project and Equipment reserve to offset work in progress and obligated implementation funding. The accumulation of one-year's operating budget to cover substantial emergency repairs or revenue shortfalls, as needed. The District's cost is higher during and in the year after a wet year, and the District's revenue is most elevated in drought years. This countercyclical relationship requires a higher reserve and prudent planning. The primary source of these funds is the District Groundwater Charge. Regular maintenance on basins is performed annually on some basins and included in the operating budget, but, the most expensive maintenance of basins is planned five-year, or longer cycles come from reserves. This results in higher costs after wet years when long-term maintenance is completed. Since 2011 the District has proportioned funding for exceptional wet year repairs and cleaning into GRER to have the funds available after wet year operations and avoid large swings in the Groundwater Charge.

An agreement with SBVMWD and WMWD provides separate funding for Enhanced Recharge operation and maintenance. This funding is distinct from funding received from the Groundwater Charge and the uses of funds are very similar. A specific allocation of a portion of Enhanced Recharge funds annually to fund exceptional water year event costs is recommended. Assignment of a maximum of \$50,000 per year up to \$250,000 may be included in the GRER. The GW Emergency Repair target is considered fully funded at \$250,000.

B. Groundwater Assessment Rate Stabilization Reserve

This reserve is recommended to assist the District in providing stability and predictability in the Groundwater Assessment Fee. The reserve budget and excess funds will allow multi-year stability and support when costs increase or revenues decrease due to adverse weather, legal or other changes. This reserve will accumulate 10% of any net retained earnings of the Groundwater Enterprise from 2014 and will be budgeted at up to 5% of the total rate. This 5% may be phased in over time. The reserve shall no longer be budgeted when it reaches \$200,000.

C. Redlands Plaza Reserve

The District's offices are in Redlands Plaza, and it manages the building for itself and its tenants. Also, other real property owned by the District that is leased is also operated by this enterprise. The Redlands Plaza Reserve (RPR) shall be developed solely of lease payments of the property leased up to an amount not to exceed the greater of 150% of the average annual maintenance costs or 50% of yearly rental proceeds plus any capital improvement needed. For 2018 the target level is set at \$81,418. The purpose of the RPR is to accumulate funding to pay for major maintenance, upgrades, marketing, or emergency repairs such as the paving completed in 2017.

San Bernardino Valley Water Conservation District Policy

D. Land Resources Reserve

The Land Resources Reserve (LRR) shall be developed to fund general operating cash flow needs and emergency situations supporting land management, planning, habitat, Wash Plan needs, and other costs related to the Districts held lands. Through the payment of Aggregate royalties and other revenue, the LRR will accumulate capital to be able to fund the management needs and establish security against future unexpected expenses related to the District's land holdings or capital projects including new land acquisition such as the Mendoza Property acquisition or amenities such as access of trails. The Little Hoover Report #239 in 2017 recommended reserves should be accumulated for climate change needs. Staff has not thoroughly evaluated potential impacts of climate change, but adjust capital projects or acquisition of lands related to climate change will be funded from this reserve if possible. Staff coordinates with Land Resource Partners on likely income for each fiscal year and plans for contributions or uses of this reserve fund.

Initially, in 2011, this reserve did not have funding contribution due to limited mining activities. Costs to the Land Resources Enterprise are funded primarily by mining royalties. For 2017, the reserve is increased to \$816,743. Future levels may be set by modifications or in the Annual Budget.

E. Prepaid Royalties Reserve

The District holds a \$5 Million prepaid royalty from Robertson's. This reserve is subject to call provisions in the contract with Robertson's and is invested in 1 year or shorter investments. This Prepaid Royalties Reserve (PRR) is intended to assure the District from Robertson's for the long-term lease of District property and the payment of future royalties. District revenue from interest may be used in the General Fund or fund the PRR if identified in the Annual Budget.

General Fund Reserves

1. General Liability Fund Reserve

This reserve is to secure funding to the General Fund for District operations in time of temporary deficit and to balance the large swings in District cash flow. The sources of funding to the District are ephemeral and tend toward moving together so when one revenue source is down; others are as well. Thus, the District needs to have long-term reserves and short-term operating funds and capital.

If there are urgent needs and possible unforeseen costs after the District sets rates and or costs which are over budget the District will use the General Fund Reserve (GFR). This reserve accumulates funds for anticipated General Fund liabilities and allows the District flexibility to operate even in down economic cycles. Because the General Fund itself does not generate funding, it is often in need of Board approved transfers.

This reserve will be budgeted each year to increase and/or decrease based on annual operating expenditures of the General Fund and annual decisions made by the Board. It is envisioned that this reserve level balance once achieved, will be maintained at a level equal to approximately two years of General Fund operating expenses, currently roughly \$1,250,000. However, this level is ambitious given existing revenue sources to the General Fund. The General Fund has several components described below for specific purposes, uses and limitations.

A. Operating Fund Levels

The Board has established an "Operating Fund" as a subset of the General Fund Reserve. This fund, not to exceed \$300,000, is determined as a limit to what may be withdrawn by the General Manager, from investments to meet the projected operating cash flow needs of the District within the budget year.

San Bernardino Valley Water Conservation District Policy

Because revenue and expense timing, as well as contract reimbursements, do not align with expenses, this Operating Funding is essential. Costs vary from year to year; therefore the Operating Fund level should be reviewed and may be modified by the Board as part of the Annual Budget process. The General Manager shall not transfer operating funds from investments beyond the level of the Operating Fund without Board approval.

Additionally, specific projects (such as the Wash Plan and Plunge Creek) will have project funding that must be explained in the District Annual Budget, but such funds are not received or expended with regard to the fiscal year. Planned spending of these project funds will be identified in the budget to the extent possible and will be subject to the segregation requirements of the Reserve Policy, as fiduciary funds but are not technically reserves for other purposes.

B. Compensated Absences Reserve

The Board established this reserve to reflect the set aside of earned but unpaid annual leave, sick time and vacation. The purpose of the reserve is to ensure the District can pay for sick or vacation at employee separation.

C. PERS Employer Contribution and Post Employment Expense Reserve

The District has limited post-employment liabilities due to its prudent management of benefits. The District shall review the actuarial report provided by, CALPERS or OPEB Report to provide reserve funding adequate to fund projected post-employment expenses. In May 2014 the Board allocated the total of the Post Employment Reserve to the CalPERS OPEB Trust to hold funds for the OPEB liability. No funding is included in this reserve due to the Trust.

This reserve also provides funding for the District to protect against future fluctuations in the employer contribution as witnessed over the past several years. SBVWCD, like most agencies, was not obligated to contribute to the PERS retirement program as interest rates and earnings exceeded the projected liabilities of the retirement fund. Over the past few years, the SBVWCD Employer Contribution has increased, and additional increases are forecasted for the future. This reserve will be created to set aside funds at 7% of payroll even when the requested contribution from PERS falls below this level. No contribution and/or set aside will be required at this time, however, if the Board determines it may develop funding to offset future CalPERS Rate increase risk.

D. Self-Insurance Reserve

This reserve is to provide insurance protection to the District for losses that could arise from property, general liability, and worker's compensation claims. The reserve should be maintained at a level that together with SBVWCD's existing insurance policies would adequately protect the District. The Self-Insurance Reserve (SIR) will accumulate funds at an annual rate of \$5,000 earning interest allocated on balances maintained. The fund shall be utilized to cover insurance losses experienced by the agency that may or may not be awaiting insurance claim reimbursement or deductibles. The agency shall cease to contribute set-aside funds upon reaching a \$50,000 balance.

F. Capital Improvement Project and Equipment Reserve

This reserve is to provide multi-year funding to support current ongoing work in-progress, future capital projects and equipment identified and approved by the Board in the District plans and budgets. Costly equipment or vehicles are budgeted, and reserves are maintained as an alternative to funding depreciation in the budget process. The District has reviewed its capital improvement and equipment reserve based on capital repairs and equipment. This reserve target was initially set at \$400,000 in 2015 and has been increased to \$750,000 to accommodate near-term capital needs primarily for Mill and Plunge Creek projects and should be increased as these projects come to construction.

CLARIFICATIONS:

Restricted Reserves

The only funds classified as restricted are those which are specifically governed by a written contract with the agency or outlined within the “bond covenants” of a bond issue. The District currently holds no restricted reserves but does hold fiduciary funds contributed by others for the Wash Plan HCP.

Unrestricted Reserves

Reserve levels classified as unrestricted are set by SBVWCD Board Policy. The Board may modify or transfer funds between reserves by Board action.

Reserve and Enterprise Transfers, Loans and Approval

The District Board has authority over all transfers and loans among enterprises and their Reserve accounts. The Board delegates day to day management of the funds of the enterprises to the General Manager. Under this authority, the General Manager may approve the transfer/loan of funds from one enterprise/reserve to/from another within the fiscal year in an amount not to exceed \$50,000. Such transfers/loans must be repaid within the same fiscal year, and accrued interest (at the LAIF rate) is due to the lending enterprise reserve from the borrowing enterprise reserve. Invested funds are pooled, and interest is allocated to the general fund unless specifically identified. Transactions above this limit or which will extend past the end of the fiscal year shall be disclosed and approved by the Board unless included in the annual budget.