

RESOLUTION 19-1007

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE JOSHUA BASIN WATER DISTRICT
AMENDING THE RESERVE POLICY

WHEREAS, Joshua Basin Water District (JBWD) previously adopted Resolution 18-985 establishing a Reserve Policy (Policy,)

WHEREAS, the Policy describes how and why specific reserves are established and maintained and provides JBWD ratepayers and taxpayers with assurance that reserve balances will be maintained at prudent and fiscally responsible levels; and

WHEREAS, annual review of the Policy is required, ensuring that the Policy continues to meet the District's needs, and such review took place on August 14, 2019, with the Finance Committee recommending the changes below.

NOW, THEREFORE BE IT RESOLVED that the following sections of the Reserve Policy are hereby amended in their entirety as follows:

9.01.03 RESTRICTED RESERVE FUNDS. Joshua Basin Water District has the following types of restricted reserve funds:

Water Capacity Account – Regulated per Government Code 66013(b)(3). Water capacity charges are used to provide funding for water system infrastructure that will be required in the future or to pay back the District for pre-built water system infrastructure already in existence at the time new water service connection is requested, as a pro-rata share of the costs to construct such facilities. Water capacity charges can fund either future system expansion required because of growth or may be used to reimburse the District for previously funded capital facilities that provide benefit to future users. Investment earnings shall be credited to the water capacity charge reserve fund.

Wastewater/Sewer Capacity Charge Account – Regulated per Government Code 66013(b)(3). Wastewater/sewer capacity charges are used to provide funding for wastewater/sewer system infrastructure that will be required to be constructed in the future, or to payback the District for pre-built wastewater/sewer system infrastructure already in existence at the time new wastewater/sewer connection is requested, as a pro-rata share of the costs to construct such facilities. Wastewater/sewer capacity charges can fund either future system expansion required because of growth or may be used to reimburse the District for previously funded capital facilities that provide benefit to future users. Investment earnings shall be credited to the wastewater/sewer capacity charge fund.

Consumer and Project Deposits Account – Good faith guarantee deposits provided by ratepayers for water service accounts or construction projects. Investment earnings shall be credited to the General Fund.

Copper Mountain Mesa Assessment District (CMMAD) Account – The District collects debt service and lien payoffs for the CMMAD, which funds are due to the bondholders. In addition, a reserve fund is established for CMMAD as required by the bonds and those reserve funds will

be applied towards the final debt service payment on the bonds. Investment earnings shall be credited to the various CMMAD reserve funds.

9.01.04 UNRESTRICTED RESERVE FUNDS. Joshua Basin Water District has the following types of unrestricted reserve funds:

Operating Reserve Account – The primary purpose of the Operating Reserve is to ensure that the District will, at all times, have sufficient funding available to meet operating and debt service costs. These funds are also available to support operating costs to minimize drastic fluctuations in rates, such as in the event of a drought when water use decreases, thus impacting operating revenues.

The target of the Operating Reserve fund is to maintain a balance equal to three (3) months average operating and debt service expenses excluding depreciation.

Cash Flow Reserve Account – This reserve is considered a cash flow requirement. It bridges the gap between the time expenses are paid, and revenues are collected from ratepayers, ensuring that the District preserves creditworthiness and provides for liquidity throughout the fiscal year.

The target of the Cash Flow Reserve fund is to maintain a balance equal to three (3) months average operating and debt service expenses excluding depreciation.

The combined target balance for both the Cash Flow Reserve and the Operating Reserve is equal to six (6) months average operating and debt service expenses excluding depreciation. As monies are neither received nor spent in twelve even monthly increments, the Cash Flow Reserve balance may exceed this combined balance as monies are received and held temporarily for disbursement at a later date.

Emergency Capital Replacement Reserve Account - This reserve is provided for emergencies or unplanned infrastructure failures. The target of the Emergency Reserve fund is to maintain a \$2 million balance.

Capital Reserve Account - This reserve provides funding for infrastructure projects designated in the approved Capital Improvement Plan (CIP) as well as other, Board-approved capital projects. The CIP identifies annual infrastructure projects for pipelines, wells, boosters, and reservoirs.

Funding for capital projects is outlined in the Capital Budget. Depending on the District's cash flow requirements, Capital Reserves funded during any fiscal year may or may not be available for use at the start of the fiscal/budget year. Funds deposited into the Capital Reserve Account each year shall be as designated in the most-recent Rate Study.

This reserve is to be used for capital projects that will be reviewed and approved by the Board of Directors, so *no maximum reserve level is recommended*. Because of the discretionary nature of this reserve, the ability to decide which projects will be funded and when, *no minimum balance is required*.

Note that capital projects may be concurrently funded and constructed within the same fiscal year, or, because infrastructure project costs are significant, projects may take more than one fiscal year to either plan/construct or be fully funded.

Individual Replacement Reserves Account - In addition to the water infrastructure projects funded via the CIP Reserve (above,) the District has other capital replacement requirements. Individual

replacement reserves are established for the following purposes, which are not otherwise funded via the Capital Improvement Plan.

Building Replacement Reserve Account – Is designated for future office building expansion or replacement. Target funding level of \$200,000 is based on 1,000 square foot expansion of office building within the next nine years. Replacement cost is based on ACWA/JPIA annually escalated insurance replacement cost

Equipment & Technology Replacement Reserve Account – Provides for regular replacement of vehicles, heavy equipment and computers, software and peripherals, office equipment and SCADA (Supervisory Control and Data Acquisition computerized monitoring system) with a cost of at least \$1,000. Target funding level is \$500,000. Approximately \$1.7M will be paid for vehicles/equipment associated with the CIRP pipeline replacement work. In order to fund replacement of this equipment after its 10-year life, the District will need to increase annual funding of the Equipment & Technology Replacement Reserve Account by approximately \$170,000 per year.

Meter Replacement Reserve Account - Targets replacement of water meters approximately every 20 years. A multi-year meter replacement project has been approved which began in fiscal year 18/19, scheduled to end in fiscal 22/23 at cost of \$2,000,000. In fiscal 23/24, or after meter replacement is complete, the annual funding should decrease so that the meter replacement fund achieves the appropriate balance after 20 years, (based on an updated estimated future replacement cost apportioned over 20 years), to provide funding for the subsequent meter replacement cycle. Any funds remaining in the Meter Replacement Reserve Account after meter replacement is complete will be transferred to the CIP Reserve Account or could be left to kick-start the next cycle of meter replacement. Board of Directors will make the determination when the current meter replacement cycle is completed, approximately fiscal 22/23.

Studies & Reports Replacement Account – Funding for periodic updates to studies and reports such as the Urban Water Management Plan, Rate Studies, Compensation Studies, Water Master Plan. JBWD spends in excess of \$50,000 per year on average for such studies and reports, although individual studies and reports can exceed that cost. Target funding level is \$100,000.

Investment earnings from all Unrestricted Reserves - Will be credited to the General Fund.

9.01.05 PROCEDURES

Policy Review - The Reserve Policy and its funding levels shall be reviewed every year, prior to the adoption of the budget.

Utilization of Reserves for Cash Flow Purposes - The Operating Reserves may be used at any time to meet cash flow requirements of District operations, as authorized by the Assistant General Manager/Controller. Authority to use the funds will be consistent with all of the District's financial policies.

Use of the Emergency Reserves can be authorized by the General Manager per Article 4.04.07 of the Administrative Code.

Use of Capital Reserves and the various Individual Replacement Reserves must be authorized by the JBWD Board of Directors. This is typically done through the budget approval process but may occur at other times.

Reallocation of Funds - The Board shall approve any reallocation of funds, transfers among reserve funds, or action that is inconsistent with this policy.

THE FOREGOING RESOLUTION WAS DULY AND REGULARLY ADOPTED, SIGNED, and APPROVED this 21st day of August, 2019, by Board of Directors of the Joshua Basin Water District by the following vote:

AYES: Floen, Hund, Johnson, Reynolds, and Unger

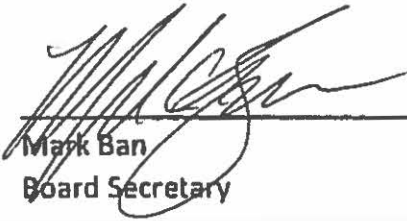
NOES:

ABSENT:

ABSTAIN:



Robert Johnson
President, Board of Directors



Mark Ban
Board Secretary