

RESOLUTION NO. 18-985

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE JOSHUA BASIN WATER DISTRICT
ESTABLISHING RULES AND REGULATIONS RELATING TO AGENCY RESERVES**

WHEREAS, fiscal strength and prudent and sound financial management are necessary to provide for the long-term success of Joshua Basin Water District (District); and

WHEREAS, fiscal strength includes maintenance of cash reserves that provide reliable service for our ratepayers, the ability to finance long-term capital projects and the ability to respond to emergencies; and.

WHEREAS, the Board of Directors of the Joshua Basin Water District to adopt a set of rules that establish a prudent Reserve Policy and

WHEREAS, authority for the District to establish reserves is provided by Article XIII B of the California Constitution; and

WHEREAS, the District wants to provide transparency to ratepayers and taxpayers by describing how and why specific reserves are established and maintained.

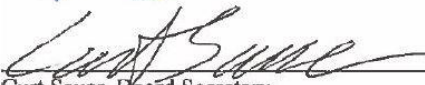
NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Joshua Basin Water District hereby adopts the following Reserve Fund Policy, added as Article 9 of the existing Administration Code.

ADOPTED, SIGNED AND APPROVED THIS 16th day of May, 2018.

Mickey Luckman	<u>AYE</u>
Bob Johnson	<u>AYE</u>
Tom Floen	<u>AYE</u>
Geary Hund	<u>AYE</u>
Rebecca Unger	<u>AYE</u>



Mickey Luckman, President, Board of Directors



Curt Sauer, Board Secretary

ARTICLE 9

RESERVE FUND POLICY

9.01 PURPOSE. It is the Joshua Basin Water District Board of Director's intent through this Policy to describe how and why specific reserves are established and maintained and to provide District ratepayers and taxpayers with assurance that reserve balances will be maintained at prudent and fiscally responsible levels.

Maintaining adequate cash reserves is an essential part of sound financial management, to meet both short-and long-term financial obligations. Reserves play a critical role in providing reliable service for our ratepayers, financing of long-term capital projects and responding to emergencies. Reserves can provide the savings necessary to balance budgets during periods of diminished revenues, allow for emergency preparedness, assist in maintaining stable water service rates, and preserve the financial stability of the District against present and future uncertainties in an ever-changing environment.

Suggested reserve funding balances are necessary to maintain Joshua Basin Water District's fiscal strength and flexibility and to adequately provide for:

- Compliance with applicable statutory requirements.
- Financing of future capital projects, and repair and replacement of existing assets.
- Cash flow requirements.
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
- Contingencies or unforeseen operating or capital needs.

9.01.01 GUIDING PRINCIPLES

1. The District will prudently manage the resources entrusted to it by our ratepayers.
2. The District will maintain reserve funds in designated accounts in a manner that ensures its financial soundness and provides transparency to its ratepayers.
3. The District will maintain reserve funds that :
 - Are designated for specific purposes;
 - Are consistent with other financial policies, budgetary practices, District programs and legal requirements;
 - Allow the District to provide a high level of emergency preparedness for our ratepayers;
 - Provide funding for well-maintained infrastructure for current and future ratepayers; and
 - Allow the District to respond to an ever-changing environment, such as drought or new water quality mandates.

9.01.01 AUTHORITY. Joshua Basin Water District has authority under Article XIII B of the California Constitution to establish such reserves as are deemed reasonable and proper.

9.01.02 DEFINITIONS

Restricted Reserves - Limitations on the use of restricted reserves are imposed by an outside source such as creditors, grantors, contributors, or laws or regulations of other Governmental entities.

Unrestricted Reserves - Have no externally imposed use restrictions. The use of unrestricted reserves is at the discretion of the Joshua Basin Water District Board of Directors. There are two categories of unrestricted reserves, Designated and Undesignated. Currently, all Unrestricted Reserves at Joshua Basin Water District are Designated Reserves.

Designated Reserves - Set aside for a specific purpose, which is determined at the sole discretion of the Board of Directors. The Board of Directors also has the authority to redirect the use of these reserve funds as the needs of the Joshua Basin Water District change.

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 water 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 or 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 Improvement Plan Reserve (CIP) Account - This reserve provides funding for infrastructure projects in the approved Capital Improvement Plan (CIP.) The CIP identifies annual infrastructure projects for pipelines, wells, boosters, and reservoirs.

Funding for CIP projects is outlined in the Capital Budget. In addition, 50% of annual operating net revenue, as determined by the annual audit, will be deposited into the CIP Reserve fund after audit acceptance by the Board of Directors. Depending on the District's cash flow requirements, CIP Reserves funded during any fiscal year may or may not be available for use at the start of the fiscal/budget year.

This reserve is to be used for priority 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 CIP 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/shop building expansion or replacement. Target funding level of \$315,000 is based on 1,000 square foot expansion of both shop and office buildings within the next ten years. Replacement cost is based on ACWA/JPIA annually escalated insurance replacement cost.

Equipment & Technology Replacement 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.

Meter Replacement Account - Targets replacement of water meters approximately every 20 years. Meter replacement is overdue at the time this policy was written, and the District intends to replace meters over the next five fiscal years (2018/19 – 2022/23) at an estimated cost of \$1,500,000, requiring annual funding of \$250,000 through 2022/23. In 2023/24, or after meter replacement is complete, the annual funding will 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.

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 approximately \$50,000 per year on average for such studies and reports, although individual studies and reports can exceed that cost. Target funding level is \$50,000.

In addition, a Wells, Boosters, Reservoir replacement reserve was previously established and currently has a balance of \$382,788 available for funding of appropriate projects. This Reserve will no longer be funded beginning in fiscal 18/19, and the current balance will be transferred to the CIP Reserve account.

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 Replacement Reserves must be authorized by the JBWD Board of Directors.

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

9.01.06 SUMMARY - The Reserve Fund Policy states that designated reserves will be maintained to allow for funding of the District's operating, capital and debt service obligations, as well as funding for unforeseen events. Reserves will be established, replenished, and used only in a manner, which allows the District to fund costs consistent with the Capital Improvement Plan, Financial Plan, and Rate Study, and other Board adopted actions. The District's Reserve Fund Policy shall be periodically reviewed and adjusted to meet the needs of the District.