

RESOLUTION OF THE BOARD OF DIRECTORS OF  
COACHELLA VALLEY WATER DISTRICT

RESOLUTION NO. 2016-8

BE IT RESOLVED by the Board of Directors of the Coachella Valley Water District assembled in regular meeting this 23rd day of February, 2016, that it hereby approves and adopts the amended Reserve Policy dated February 23, 2016, said amended Reserve Policy is attached as “Exhibit A”; and

BE IT FURTHER RESOLVED that Resolution No. 2014-29, adopting Revised Reserve Policy Guidelines dated February 11, 2014, be rescinded; and

BE IT FINALLY RESOLVED that all ordinances, resolutions or other existing conflicting documents, policies and Board action items in conflict with the Reserve Policy adopted on this date are hereby superseded by this Resolution.

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# EXHIBIT A

## Coachella Valley Water District Reserve Policy

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### GOAL

The goal of maintaining adequate reserves is to ensure that there are appropriate levels of working capital in the District's enterprise funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees.

Properly designed policies send a positive signal to the community of ratepayers, bondholders, rating agencies, and regulatory agencies that the Board is committed to the District's long-term financial health and viability. Prudent financial management and best practices dictate that the District maintain appropriate reserves for emergency use, capital projects, obligations accruing on a current basis that will be paid in the future, and those required as a result of legal or external requirements.

### OBJECTIVES:

- To establish sound formal fiscal reserve policies to ensure strong fiscal management to guide future District decisions.
- To build adequate reserves over time. This action will provide the District with resources to help stabilize the District's finances, and position it more easily to absorb economic downturns or large-scale emergencies.
- To help smooth rates from year-to-year, and to promote equity over the years to ratepayers.
- To provide funding for current and future replacement of existing assets as they reach the end of their useful lives.
- To assist the District in meeting its short-term and long-term obligations and to ensure that the District maintains the highest possible credit rating.

### RESERVE POLICIES

#### Definitions

**Reserves** are defined as the amount of Cash and Investments in that fund, plus the Accounts Receivable, less the Accounts Payable and less Amounts due to Others in the fund. This methodology indicates the relatively liquid portion of total enterprise fund capital, which constitutes a margin or buffer for meeting obligations.

1. **Designated Reserves:** Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose (classified as unrestricted on the audited financial statements).

2. **Restricted Reserves:** Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract (classified as restricted on the audited financial statements).
3. **Undesignated Reserves:** It is assumed that all reserves will be Designated or Restricted, and therefore, there will be no undesignated funds per policy. (These are classified as unrestricted on the audited financial statements).

*NOTE: The District's audited financial statements segregate Net Position, which includes the effects of all assets and liabilities, some of which are nonspendable, not liquid, or have not been included in the current year budget. Therefore, the definition of Reserves is different than the Net Position, and the two terms should not be used synonymously.*

## **Designated Reserves**

1. **Operating Reserves** cover operating costs for an established period of time. This reserve will ensure continuity of service regardless of cash flow, and is considered working capital to be used to fund current expenses as needed.

Applicable Funds: All funds except Internal Service Funds: Workers' Compensation, Dental PPO, and Motorpool

### **Recommendation:**

Maintain operating reserves at 90 days, or 25% of current year budgeted operating expenses (less depreciation and capital outlay). This balance will fluctuate from month to month. However, the year-end objective is to achieve this ending balance. For the Nonpotable Fund, maintain operating reserves at 30 days, or 8% of current year budgeted operating expenses (less depreciation and capital outlay).

2. **QSA Mitigation:** The West and East Replenishment Funds have scheduled QSA Environmental Impact payments to be made until 2025. The payment amounts are known but are not the same amount each year. This reserve will be used to prevent large rate swings due to the variability of these payments.

Applicable Funds: West and East Replenishment Funds

### **Recommendation:**

Establish the reserve at the average of the remaining years' payments.

3. **Rate Stabilization:** This reserve covers the smoothing of rates in the event of short to mid-term rate revenue loss, and/or higher than anticipated operating expenses that cannot be supported by normal revenues. Rate Stabilization funds can be used to balance the budget if revenues are projected to be 10% less than prior year actual rate revenues, or if operating expenses are projected to be 10% more than prior year actual expenses.

Applicable Funds: Domestic, Sanitation, Canal and Replenishment Funds\*

\*The Stormwater Fund is not included because revenues consist of property taxes, which are relatively level.

***Recommendation:***

Establish the reserve at the higher of 10% of current year budgeted rate revenues or 10% of total budgeted operating expenses less depreciation, capital outlay, and State Water Project expense. For Sanitation establish the reserve at 10% of the nonresidential rate revenues.

4. ***Capital Improvement Program (CIP):*** Ongoing replacement of capital facilities and additional investment in capital is essential to maintain the desired level of service for District customers and to meet increased demand upon services. This reserve is designated for funding the capital improvement program and unforeseen capital projects. It is designed to stabilize funding for capital by accumulated “pay as you go” reserves. This reserve can also be used in concurrence with outside funding sources.

Applicable Funds: Domestic, Sanitation, Canal, Stormwater, Replenishment

***Recommendation:***

This reserve should be set at two years depreciation expense for the Domestic and Sanitation Funds. These funds have relatively new infrastructure, therefore depreciation is a good measure of the replacement requirements. For the Canal, Stormwater, and Replenishment funds, this reserve should be set at the average of the Five-Year CIP. These funds have a depreciation amount that does not match capital needs; therefore the average of the Five-Year CIP will provide a better measure of the replacement requirements.

During the annual budget process, staff will recommend approval of the one-year capital improvement budget. If adequate funding is not available from unrestricted reserves, the CIP reserve funds will be used. If the balance in the CIP reserve is less than 50% of the targeted reserve level for two consecutive years, the Board of Directors should adopt a budget that includes a plan to build the reserves back to the targeted level over the following two to five years.

5. ***Emergency Reserve:*** These reserves help to ensure continued service to the District’s customers and service areas for events which are impossible to anticipate or budget. The ability of the District to quickly restore facilities and services is critical to the public health and safety of our residents. This fund will assist in covering emergency cash needs for any reason.

Applicable Funds: All funds except Self-Insurance and Motorpool

***Recommendation:***

Domestic, Nonpotable, Sanitation, West Replenishment, and East Replenishment Funds: establish reserves at one percent (1.0%) of the net capital assets; Canal Fund: establish reserves at one percent (1.0%) of the replacement cost of fixed assets.

Stormwater Fund reserves at \$17.6 million, per previous Board policy.

6. ***Vehicle Replacement Reserve:*** The Vehicle Replacement reserve provides capital replacement funding as the District’s rolling stock is depreciated over its useful life.

Applicable Funds: All enterprise funds and the Motorpool Fund

***Recommendation:***

The target amount should be set at the average of the five-year CIP for replacement vehicles for that fund.

7. ***Self-Insurance Reserves:*** These reserves fund the District's self-insurance programs: workers' compensation and the dental benefits.

Applicable Funds: Self-Insurance Funds (Workers' Compensation and Dental)

***Recommendation:*** Minimum reserve level for the Workers' Compensation Fund is based on the projected losses calculated from the most current actuarial analysis. There is no maximum on this reserve since it is based on the actuarial estimates.

Minimum reserves for the Self-Insurance Fund are based on an annual evaluation of outstanding claims.

8. ***Other Special Purpose Reserves:*** The Board may, at its discretion, set aside reserves for a special project or purchase.

Applicable Funds: All funds

## **Restricted Reserves**

1. ***Reserves for Future Capital Commitments:*** These reserves are established by Board Ordinances to ensure that specific fees are set aside to provide for future purchases of imported water and expansion of the domestic water and sanitation systems. The following fees are in place at this time:

- a. Water System Backup Facilities Charge (WSBFC)
- b. Sanitation Capacity Charge (SCC)
- c. Supplemental Water Supply Charge (SWSC)

***Recommendation:***

Interest earned in this reserve shall be credited to this reserve. There should be a positive balance in each of these funds at all times, unless there is a specific repayment plan identified.

2. ***Reserve for Debt Service:*** Most debt issuances require the creation of a separately held reserve fund equal to one year of debt service, to be held by the trustee, and used in the last year of the debt repayment. In the future, if the District issues debt, it may be required to establish a legally restricted debt service reserve.

Debt Service Reserves are presently established for Assessment Districts and Community Facility Districts, which are not liabilities of the District.

3. ***State Water Project (SWP):*** The District collects funds through the property tax rolls to make payments to the State Water Project. These payments will vary depending upon the availability and supply provided to the District in each year, however, the revenues collected remain fairly steady.

***Recommendation:***

District engineers have done a thorough analysis on past hydrology patterns, and based on the expenses for the wettest five-year period (2002-2007), they have determined that the reserve should be \$26.4 million. This reserve is divided between the West Replenishment Fund and the Mission Creek Replenishment Fund, based on an annual analysis of production in the basins.

### **Reserve Procedures**

- The Finance Department will perform a biennial reserve review to be submitted to the General Manager and Board of Directors.
- In addition, a reserve review will be required when a major change in conditions threatens the reserve levels established by this policy.
- The biennial review determines if the funding levels are still appropriate and aligned with Board goals and objectives.

STATE OF CALIFORNIA )  
COACHELLA VALLEY WATER DISTRICT ) ss.  
OFFICE OF THE SECRETARY )

I, MARICELA CABRAL, Acting Assistant Secretary of the Board of Directors of the Coachella Valley Water District, DO HEREBY CERTIFY that the foregoing is a full, true and correct copy of Resolution No. 2016-8 adopted by the Board of Directors of said District at a regular meeting thereof duly held and convened on the 23<sup>rd</sup> day of February, 2016, at which meeting a quorum of said Board was present and acting throughout. The Resolution was adopted by the following vote:

Ayes: Five  
Directors: Powell, Nelson, O'Dowd, Pack, Estrada  
Nos: None

Dated this 23<sup>rd</sup> day of February, 2016.

  
Acting Assistant Secretary

(SEAL)



## COACHELLA VALLEY WATER DISTRICT

### Board Action Item

**Board Meeting Date: February 23, 2016**

TO: Board of Directors

SUBJECT: Adopt Revised Reserve Policy

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#### Description and Location

The Reserve Policy that was adopted February 11, 2014 requires a biennial review.

#### Purpose and Benefit of Project

The purpose of this board item is to adopt a revised Reserve Policy. The Reserve Policy requires a biennial review be submitted to the General Manager and the Board of Directors and was last revised on February 11, 2014 via resolution. Included in the revisions is a change in the QSA Mitigation Reserve, the Motorpool Replacement Reserves, the Nonpotable Capital Reserves and an establishment of a Dental Self-Insurance Reserve.

The changes are as follows:

1. **QSA Mitigation Reserve:** The QSA water transfer agreements contractually obligate the District to pay for environmental mitigation over the next ten years. The payments are not evenly scheduled, and range from a high of \$7.8 million in 2016 to a low of \$152,000 in 2024. The QSA mitigation reserve will be used to smooth rates and prevent large rate swings due to the variability of these payments. The QSA mitigation reserve will be based on the average of the remaining year's payments. Between 2004 and 2015, QSA mitigation payments were allocated 90% to the Domestic Water Fund and 10% to the Canal Fund. As a result of the cost of service study and beginning in 2016, QSA mitigation costs are allocated to the East and West Replenishment Funds based on their pro-rata share of production at calendar year-end. This results in the elimination of the QSA reserve in the Domestic Water and Canal Funds and the creation of the QSA reserve in the East and West Replenishment Funds.
2. **Motorpool Replacement Reserve:** In prior years, the Motorpool Fund accumulated reserves for the replacement of vehicles. This has changed so that each individual enterprise fund has a separate Motorpool replacement reserve. This proposal eliminates the vehicle replacement reserve in the Motorpool Fund and establishes separate reserves in each applicable enterprise fund based on the average five-year replacement costs.
3. **Nonpotable Capital Reserve:** Staff proposes eliminating the capital reserve since the capital is now funded by the Replenishment Funds
4. **Dental Self-Insurance Reserve:** This is a new self-insurance program effective January 1, 2016. Staff proposes establishing a reserve equivalent to three months average claims. This

amount is unknown at present, and will be established at year-end.

Please see attached Policy.

### **Procurement and Expenditures**

N/A

### **Environmental Impact**

- No, this item is not a “project” as defined by CEQA; therefore, approval does not require any CEQA action.
- Yes, see below.

### **Legal Review**

- Reviewed by Counsel
- N/A

### **Fiscal Impact**

As a result of adopting the revised Reserve Policy, the target reserves in the Enterprise Funds would decrease a total of \$13.6 million.

### **Prior Authorizations**

- Yes, see attachment.
- N/A

### **Staff Recommendation**

It is recommended that the Board of Directors adopt the attached revised Reserve Policy.  
Please see the attached proposed resolution.

Prepared by: Teri Vorster  
Financial Analyst

Submitted by: Kay Godbey  
Finance Director



Approved by:

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J. M. Barrett  
General Manager

Attachments/as

FILE: 1011.3

PROJECT ID NO: N/A