BOARD OF DIRECTORS
Eugene F. West, **Chair**, *Director, Camrosa Water District*
Kelly Long, **Vice Chair**, *Supervisor, County of Ventura*
Michael Craviotto, *Farmer, Agricultural Representative*
Lynn Maulhardt, *Director, United Water Conservation District*
Tony Trembley, *Councilmember, City of Camarillo*

EXECUTIVE OFFICER
John Demers

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Fox Canyon Groundwater Management Agency (FCGMA), also sitting as watermaster for the Las Posas Valley Basin (LPV) and the groundwater sustainability agency for the Las Posas Valley Basin, the Pleasant Valley Basin, and the Oxnard Subbasin, will hold a **Fiscal Committee Meeting** at **1:00 P.M.** on **Monday, October 13, 2025** in the **Lower-Plaza Assembly Room**, at the Ventura County Government Center, Hall of Administration at 800 South Victoria Avenue, Ventura, California.

FISCAL COMMITTEE MEETING AGENDA

October 13, 2025
1:00 P.M.

Members: Chair Eugene West
Vice Chair Tony Trembley

A. **Call to Order**

B. **Introductions**

C. **Public Comments** – Audience members may speak about matters not on today's Agenda.

D. **FCGMA Biennial Audit Report** – Review and provide feedback on the FCGMA Biennial Audit and Independent Auditor's Report for Fiscal Years ending June 30, 2023, and June 30, 2024. The report is included as Exhibit D1.

E. **Reserve Policy Development** – Discussion of reserve policy, reserve accounts, funding use, and annual contributions. Sample fiscal reserve policies and resources are included as Exhibit E1**.**

F. **LPV Judgment Terminology Protocol** – Contextual use discussion for terms as they are defined in the LPV Judgment, including "Water Year," in Watermaster correspondence, reporting, and online content.

G. **Future Agenda Items and Next Meeting Date** – Tuesday, February 3, 2026, at 10:00 AM. Mid-Fiscal Year Review and Discussion (Midyear balance reporting will be available in late January).

H. **Adjourn Meeting.**

STANDING NOTICES

The FCGMA Board and its less-than-a-quorum advisory committees strive to conduct accessible, orderly, and fair meetings where everyone can be heard on the issues. The Committee Chair will conduct the meeting and establish appropriate rules and time limitations for each item.

Public Comments – Public comment is the opportunity for members of the public to participate in meetings by addressing the Fox Canyon Executive Committee in connection with one or more agenda or non-agenda items.

If you wish to make a written comment, please follow the steps below.

1. If you wish to make a written comment on a specific agenda item, please submit your comment via email by 5:00 p.m. on the Monday prior to the Fiscal Committee Special Meeting. Please submit your comment to the Clerk of the Board at FCGMA@venturacounty.gov. Please indicate in the subject line of your email the agenda item number (e.g., Item No. 9). Your email will be read by the Committee members and placed in the record.
2. If you would like to make a general public comment for items not on the day's agenda or to comment on a specific agenda item as it is being heard, please submit your comment via email, limited to 250 words or less, to the Clerk of the Board at FCGMA@venturacounty.gov. Every effort will be made to read your comment into the record, but some comments may not be read due to time limitations. Comments received after an agenda item will be made part of the record if received prior to the end of the meeting.

Administrative Record: Material presented as part of testimony will be made part of the Agency's record, and 10 copies should be left with the Board Clerk. This includes any memos, presentations, maps, etc. If possible, in advance of the meeting, email a PDF of your materials to FCGMA@venturacounty.gov.

***

ADA Accommodations: Persons who require accommodation for any audio, visual, or other disability in order to review an agenda or to participate in the Committee meeting per the Americans with Disabilities Act (ADA), may request such accommodation in writing addressed to the Clerk of the FCGMA Board, 800 So. Victoria Avenue, Location #1610, Ventura, CA 93009-1610, via emailing FCGMA@venturacounty.gov or via telephone by calling (805) 654-2014. Any such request should be made at least 24 hours prior to the meeting so staff can make the necessary arrangements.

***

Continuance of Items: The Committee will endeavor to consider all matters listed on this agenda. However, time may not allow the Committee to hear all matters listed. Matters not heard at this meeting may be carried over to the next Committee meeting or to a future Committee meeting. Participating individuals or parties will be notified of the rescheduling of their item prior to the meeting. Please contact the Agency Clerk to find out about rescheduled items.

***

The Ralph M. Brown Act: It is the intent of the law that the actions of this Board and its Committees be taken openly and that their deliberations be conducted openly. Read about the Ralph M. Brown Act via this link: https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?chapter=9.&division=2.&lawCode=GOV&part=1.&title=5.

***

Agency Information and Updates: Our website address is https://fcgma.org/. Information available online includes the Board's meeting schedule, a list of the Board members and staff, general information, and various Agency forms. To learn more about the Committee, please visit https://fcgma.org/committee-meetings/. If you would like to be added to our email notification list or speak to a staff member, please contact the FCGMA Clerk of the Board at (805) 654-2014 or via email at FCGMA@venturacounty.gov.

Fox Canyon Groundwater Management Agency
Audited Financial Statements
As of and for the Years Ended June 30, 2024 and 2023
with Independent Auditor's Report

Fox Canyon Groundwater Management Agency
Audited Financial Statements
As of and for the Years Ended June 30, 2024 and 2023
with Independent Auditor's Report

INTRODUCTORY SECTION

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

A STATE OF CALIFORNIA WATER AGENCY

BOARD OF DIRECTORS
Eugene F. West, Chair, *Director, Camrosa Waler District*
Kelly Long, Vice Chair, *Supervisor, County of Ventura*
Michael Craviotto, *Farmer, Agricultural Representative*
Lynn Maulhardt, *Director, United Water Conservation District*
Tony Trembley, *Councilmember City of Camarillo*

EXECUTIVE OFFICER
John Demers

Board of Directors
Fox Canyon Groundwater Management Agency 800 South Victoria Avenue
Ventura, CA 93009-1600

SUBJECT: Letter of Transmittal, Annual Financial Report

Introduction

It is our pleasure to submit the Annual Financial Report for the Fox Canyon Groundwater Management Agency for the fiscal years ended June 30, 2024, and 2023, following guidelines set forth by the Governmental Accounting Standards Board. Agency staff prepared this financial report. The Agency is ultimately responsible for both the accuracy of the data and the completeness and the fairness of presentation, including all disclosures in this financial report. We believe that the data presented is accurate in all material respects. This report is designed in a manner that we believe necessary to enhance your understanding of the Agency's financial position and activities.

This report is organized into two sections: (1) Introductory and (2) Financial. The Introductory section offers general information about the Agency's organization and current Agency activities, and reports on a summary of significant financial results. The Financial section includes the Independent Auditor's Report, Management's Discussion and Analysis of the Agency's basic financial statements, and the Agency's audited basic financial statements with accompanying notes.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of the Management's Discussion and Analysis (MD&A) section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Agency's MD&A can be found immediately after the Independent Auditor's Report.

District Structure and Leadership

The Fox Canyon Groundwater Management Agency was created by the State of California on September 13, 1982, under Assembly Bill No. 2995 Chapter 1023. The Agency was created to manage the groundwater in overdraft and potentially seawater intruded areas in Ventura County. The prime agency objective is to preserve groundwater resources for agricultural, municipal, and industrial uses in the best interest of the public and for the common benefit of all water users.

The Agency is governed by a five-member Board of Directors. The Agency has no employees but contracts with the County of Ventura for staff services to provide professional and technical expertise, legal, administrative, and fiscal services needed to run the day-to-day operations of the organization. The Agency's Board of Directors meets each month. Meetings are publicly noticed, and citizens are encouraged to attend.

800 South Victoria Avenue, Ventura, CA 93009-1610 (805) 654-2014

Agency Services

The Fox Canyon Groundwater Management Agency (Agency), established by the State Legislature in 1982, is charged with the preservation and management of groundwater resources within the areas or lands overlying the Fox Canyon aquifer for the common benefit of the public and all agricultural, domestic, and municipal and industrial users.

Internal Control Structure

Agency management is responsible for the establishment and maintenance of the internal control structure that ensures the assets of the Agency are protected from loss, theft, or misuse. The internal control structure also ensures adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The Agency's internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits require estimates and judgments by management.

Budgetary Control

The Agency Board of Directors annually adopts an operating and capital budget prior to the new fiscal year. The budget authorizes and provides the basis for reporting and control of financial operations and accountability for the Agency's enterprise operations and capital projects. The budget and reporting treatment applied to the Agency is consistent with the accrual basis of accounting and the financial statement basis.

Investment Policy

The Board of Directors has adopted an investment policy that conforms to state law, Agency ordinance and resolutions, prudent money management, and the "prudent person" standards. The objective of the Investment Policy is safety, liquidity, and yield. All cash and investments of the Agency are held in the investment pool managed by the Ventura County Treasurer.

Agency Revenues - Extraction Charges and Surcharges

The primary revenue source for the Agency is Extraction charges that are assessed at $6.00 per acre-foot, a Sustainability fee assessed at $29.00 per acre-foot, and a Reserve fee assessed at $20.00 per acre-foot against all well owners within the geographic boundaries of the Agency. In addition, the Agency levies a surcharge on groundwater extractions in excess of a person(s) approved annual allocation based on the cost to import potable water from the Metropolitan Water District of Southern California (MWD) through Calleguas Municipal Water District (CMWD). Surcharges are assessed per water year, tiered with base tier set at CMWD Tier 2 rate.

Surcharges are not used to support Agency operations but rather are kept in an account designated by the Board to be used for supplemental water purchases or other expenses that increase the water resources within the Agency. Expenses against surcharges must be approved by the Board.

Audit and Financial Reporting

State Law requires the Agency to obtain a biennial audit of its financial statements by an independent certified public accountant. The accounting firm of Rogers Anderson Malody & Scott, LLP has conducted an audit of the Agency's financial statements. Their unmodified Independent Auditor's Report appears in the Financial Section.

Other References
More information is contained in the Management's Discussion and Analysis and the Notes to the Basic Financial Statements found in the Financial Section of the report.

Acknowledgements
Preparation of this report was accomplished by the combined efforts of Agency staff. We appreciate the dedicated efforts and professionalism that these staff members contribute to the Agency. We would also like to thank the members of the Board of Directors for their continued support in the planning and implementation of Fox Canyon Groundwater Management Agency's fiscal policies.

Respectfully submitted,

John Demers

Executive Officer

Fox Canyon Groundwater Management Agency
Official Roster
As of June 30, 2024

Name	Title	Elected/Appointed	Current Term
Eugene F. West	Chair	Appointed	02/2023 - 02/2025
Kelly Long	Vice Chair	Appointed	02/2023 - 02/2025
Tony Trembley	Director	Appointed	02/2022 - 02/2024
David Borchard	Director	Appointed	02/2022 - 02/2024
Lynn Maulhardt	Director	Appointed	02/2023 - 02/2025

FINANCIAL SECTION

RAMS
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Directors
Fox Canyon Groundwater Management Agency
Ventura, CA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Fox Canyon Groundwater Management Agency (the Agency), as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States; and the State Controller's *Minimum Audit Requirements for California Special Districts*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Agency, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Tel: 909.889.0871 | www.ramscpa.net | 735 E. Carnegie Dr. Suite 100, San Bernardino, CA 92408

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Agency's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information compromises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion on any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2025 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
August 13, 2025

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of Fox Canyon Groundwater Management Agency (the Agency) provides an introduction to the financial statements of the Agency for the fiscal years ended June 30, 2024 and 2023. We encourage readers to consider the information presented herein in conjunction with the transmittal letter in the Introductory Section and with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2024, the Agency's net position increased by 71.59% or $3,364,811 to $8,065,238. In comparison, the Agency's net position increased by 32.47% or $1,152,072 to $4,700,427 during fiscal year 2023.

- In fiscal year 2024, the Agency's total operating revenues increased by 16.78% or $1,056,724 to $7,355,935. In fiscal year 2023, the Agency's total operating revenues increased by 40.44% or $1,813,853 to $6,299,211.

- In fiscal year 2024, the Agency's total non-operating revenues increased by 203.60% or $227,393 to $339,081. In fiscal year 2023, the Agency's total non-operating revenues increased by 343.92% or $157,477 to $111,688.

- In fiscal year 2024, the Agency's total operating expenses decreased by 17.65% or $928,059 to $4,330,205. In fiscal year 2023, the Agency's total operating expenses increased by 26.49% or $1,101,361 to $5,258,264.

Required Financial Statements

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows provide information about the activities and performance of the Agency.

The Statements of Net Position includes all of the Agency's investments in resources (assets) and deferred outflows of resources, the obligations to creditors (liabilities) and deferred inflows of resources. They also provide the basis for computing a rate of return, evaluating the capital structure of the Agency, and assessing the liquidity and financial flexibility of the Agency. All of the years' revenue and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. These statements measure the success of the Agency's operations over the past year and can be used to determine if the Agency has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate profitability and credit worthiness.

The final required financial statement is the Statements of Cash Flows, which provide information about the Agency's cash receipts and cash payments during the reporting period. The Statement of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital financing, and capital and related financing activities, and providing answers to such questions as where cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages as listed in the table of contents.

Financial Analysis of the Agency

One of the most important questions asked about the Agency's finances is, "Is the Agency better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Agency in a way that helps answer this question. These statements include all assets, deferred outflows, liabilities, and deferred inflows using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Agency's net position and changes in them. One can think of the Agency's net position (the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources), as one way to measure the Agency's financial health, or financial position. Over time, increases or decreases in the Agency's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning, and new or changed government legislation, such as changes in Federal and State water quality standards.

Revenues Extraction Charges

The primary revenue source for the Agency is the extraction charges that are assessed at $6.00 per acre-foot against all well owners within the geographic boundaries of the Agency. In addition, the Agency places a surcharge for extraction in excess of the baseline allowance. The intent of the surcharge is to discourage extraction of groundwater in excess of the approved allocation when that extraction adversely affects achieving a safe yield of any basin within the Agency. Surcharges are assessed using a tiered structure with a base of $1,929 for 25 acre-feet or less; an additional $250 per acre-foot over 25 but less than 100 acre-feet and an additional $500 per acre-foot over 100 acre-feet. Surcharges are not used to support the Agency's operations but rather are kept in an account designated by the Board to supplement water purchases or other expenses that increase the water resources within the Agency. Disbursements from surcharges must be approved by the Board.

The following summarizes extraction surcharge revenues for the years ended June 30, 2024, 2023, 2022, and 2021:

	For the year ended June 30,			
	2024	2023	2022	2021
Fees per acre foot	$ 6	$ 6	$ 6	$ 6
Acre feet pumped	89,084	111,574	107,757	105,575
Extraction revenue	$ 817,117	$ 777,109	$ 638,416	$ 775,988
Surcharge revenue	$ 802,550	$ 1,164,121	$ 1,361,456	$ 628,410

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages as listed in the table of contents.

Condensed Statements of Net Position

	June 30,				
	2024	2023	Change	2022	Change
Assets					
Current assets	$11,701,148	$ 5,768,176	$ 5,932,972	$ 4,333,498	$ 1,434,678
Capital assets, net	-	-	-	563	(563)
Total assets	11,701,148	5,768,176	5,932,972	4,334,061	1,434,115
Liabilities					
Current liabilities	3,635,910	1,067,749	2,568,161	785,706	282,043
Total liabilities	3,635,910	1,067,749	2,568,161	785,706	282,043
Net position					
Investment in capital assets	-	-	-	563	(563)
Unrestricted	8,065,238	4,700,427	3,364,811	3,547,792	1,152,635
	$ 8,065,238	$ 4,700,427	$ 3,364,811	$ 3,548,355	$ 1,152,072

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Agency, assets of the Agency exceeded liabilities by $8,065,238 as of June 30, 2024 and $4,700,427 as of June 30, 2023.

Currently, all of the Agency's net position as of June 30, 2024 and 2023 reflects the Agency's unrestricted component (net amount of the assets and liabilities), that are not included in the determination of the net investment in capital assets or restricted component of net position. The Agency uses these unrestricted assets to provide funding for future Agency operations.

At the end of fiscal year 2024 and 2023, the Agency showed a positive balance in its unrestricted net position of $8,065,238 and $4,700,427, respectively.

The respective significant increases in current assets and current liabilities year over year is due to the DWR grant passthrough amounts, see Note 9 of these financial statements for further details regarding these amounts.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	For the year ended June 30,				
	2024	2023	Change	2022	Change
Operating revenues	$ 7,355,935	$ 6,299,211	$ 1,056,724	$ 4,485,358	$ 1,813,853
Non-operating revenues	339,081	111,688	227,393	(45,789)	157,477
Total revenue	7,695,016	6,410,899	1,284,117	4,439,569	1,971,330
Operating expenses	4,330,205	5,258,264	(928,059)	4,156,903	1,101,361
Depreciation	-	563	(563)	786	(223)
Change in net position	$ 3,364,811	$ 1,152,072	$ 2,212,739	$ 281,880	$ 870,192

The statements of revenues, expenses, and changes in net position show how the Agency's net position changed during the fiscal year.

A closer examination of the sources of changes in net position reveals that:

In fiscal year 2024, the Agency's net position increased by 71.59% or $3,364,811 to $8,065,238 mainly due to increase of Sustainability Fee. In fiscal year 2023, the Agency's net position increased by 32.47% or $1,152,072 to $4,700,427 as a result of ongoing operations.

In fiscal year 2024, the Agency's total operating revenues increased by 16.78% or $1,056,724, primarily due to the increase of $963,780 in extraction charges revenue which was offset by a decrease of $92,944 in other income. In 2023, total operating revenues increased by 40.44% or $1,813,853, primarily due to an increase of $1,813,853 in extraction charges revenue.

In fiscal year 2024, the Agency's total non-operating revenues increased by 203.60% or $227,393, primarily due to gains in the fair value change of its investments and increased interest earnings. In fiscal year 2023, the Agency's total non-operating revenues increased by 343.92% or $157,477, primarily due to increases in interest earnings and gains in the change in the fair value of investments.

In fiscal year 2024, the Agency's total operating expenses decreased by 17.66% or $928,059, primarily due to a $874,991 decrease in legal and professional services and a decrease of $51,494 in Ventura County public works charges.

In fiscal year 2023, the Agency's total operating expenses increased by 26.49% or $1,101,361, primarily due to $1,094,593 increase in professional services and a $35,516 increase in Ventura County public works charges, offset by a decrease of $27,928 in office expenses.

Capital Asset Administration

Changes in capital assets for 2024 were as follows:

	Balance July 1, 2023	Additions	Deletions	Balance June 30, 2024
Capital assets				
Depreciable assets	$ 542,915	$ -	$ -	$ 542,915
Accumulated depreciation	(542,915)	-	-	(542,915)
Total capital assets, net	$ -	$ -	$ -	$ -

Changes in capital assets for 2023 were as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets				
Depreciable assets	$ 542,915	$ -	$ -	$ 542,915
Accumulated depreciation	(542,352)	(563)	-	(542,915)
Total capital assets, net	$ 563	$ (563)	$ -	$ -

At the end of fiscal year 2024 and 2023, the Agency's investment in capital assets amounted to $-0- and $-0- (net of accumulated depreciation), respectively. This investment in capital assets includes equipment and software.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the Agency's current financial position, net position, or operating results in terms of past, present, and future.

Requests for Information

This financial report is designed to provide the Agency's funding sources, customers, stakeholders, and other interested parties with an overview of the Agency's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Fox Canyon Groundwater Management Agency at 800 South Victoria Avenue, Ventura, CA 93009-1600.

BASIC FINANCIAL STATEMENTS

Fox Canyon Groundwater Management Agency

Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets:		
Cash and investments	$ 7,187,863	$ 4,433,278
Receivables, net:		
Due from County of Ventura	12,079	65,682
Accounts	1,305,039	972,392
Due from other governments - grants	3,075,604	260,456
Interest	120,563	36,368
Total current assets	11,701,148	5,768,176
Noncurrent assets:		
Capital assets, net of accumulated depreciation	-	-
Total noncurrent assets	-	-
Total assets	11,701,148	5,768,176
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses	530,593	670,498
Due to other governments - grants	3,075,604	260,456
Due to the County of Ventura	29,713	136,795
Total current liabilities	3,635,910	1,067,749
Total liabilities	3,635,910	1,067,749
Net position:		
Investment in capital assets	-	-
Unrestricted	8,065,238	4,700,427
Total net position	$ 8,065,238	$ 4,700,427

The accompanying notes are an integral part of these financial statements.

Fox Canyon Groundwater Management Agency

Statements of Revenues, Expenses and Changes in Net Position
For the years ended June 30, 2024 and 2023

	2024	2023
Operating revenues		
Extraction charges and surcharges	$ 7,262,991	$ 6,299,211
Other	92,944	-
Total operating revenues	7,355,935	6,299,211
Operating expenses		
Ventura County public works charges	1,540,952	1,592,446
Professional services	2,759,772	3,634,763
Office expenses	4,833	10,982
Maintenance building and improvements	13,622	8,812
Insurance	4,118	3,796
Special department expenses	2,501	3,973
Publications and legal notices	991	601
Communications	4	2
Miscellaneous	3,412	2,889
Total operating expenses	4,330,205	5,258,264
Operating income before depreciation	3,025,730	1,040,947
Depreciation	-	563
Operating income	3,025,730	1,040,384
Nonoperating revenues (expenses)		
Interest income	277,445	88,098
Grant revenue	3,516,579	824,290
Grant expense	(3,516,579)	(824,290)
Net increase in the fair value of investments	61,636	23,590
Total nonoperating revenues (expenses)	339,081	111,688
Change in net position	3,364,811	1,152,072
Net position		
Beginning of year	4,700,427	3,548,355
End of year	$ 8,065,238	$ 4,700,427

The accompanying notes are an integral part of these financial statements.

Fox Canyon Groundwater Management Agency

Statements of Cash Flows
For the years ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Cash received from extraction fees	$ 7,076,891	$ 5,609,702
Cash payments to suppliers for goods and services	(4,577,192)	(5,236,677)
Net cash provided by (used for) operating activities	2,499,699	373,025
Cash flows from noncapital financing activities:		
Proceeds from grants	3,516,579	824,290
Grant payments to other governments	(3,516,579)	(824,290)
Net cash provided by (used for) noncapital financing activities	-	-
Cash flows from investing activities:		
Investment income and interest earnings	254,886	76,344
Net cash provided by (used for) investing activities	254,886	76,344
Net change in cash and cash equivalents	2,754,585	449,369
Cash and cash equivalents, beginning of year	4,433,278	3,983,909
Cash and cash equivalents, end of year	$ 7,187,863	$ 4,433,278
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income	$ 3,025,730	$ 1,040,384
Depreciation	-	563
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:		
(Increase) decrease in assets:		
Accounts receivable	(332,647)	(628,568)
Due from County of Ventura	53,603	(60,941)
Due from other governments - grants	(2,815,148)	(260,456)
Increase (decrease) in liabilities:		
Accounts payable	(139,905)	(91,352)
Due to County of Ventura	(107,082)	112,939
Due to other governments - grants	2,815,148	260,456
Net cash provided by (used for) operating activities	$ 2,499,699	$ 373,025
Schedule of non-cash operating, noncapital and capital related financing and investing activities		
None	$ -	$ -

The accompanying notes are an integral part of these financial statements.

NOTE 1 REPORTING ENTITY

Organization and Operations of the Reporting Entity

The Fox Canyon Groundwater Management Agency (the Agency) was formed on September 13, 1982, for the preservation of groundwater resources within the territory of the Agency for agricultural, municipal, and industrial uses. The Agency is governed by a five-member Board of Directors. The Board of Directors are appointed by their respective organizations or agencies including the 1) County of Ventura Board of Supervisors, 2) United Conservation District, 3) seven small districts within the agency (Alta Mutual Water Company, Pleasant Valley County Water District, Berylwood Mutual Water Company, Calleguas Municipal Water District, Camrosa Water District, Zone Mutual Water Company, and Del Norte Mutual Water Company), 4) the five incorporated cities within the Agency (Ventura, Oxnard, Camarillo, Port Hueneme, and Moorpark), and 5) the farmers.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Financial Statement Presentation follows the standards the standards promulgated by the Governmental Accounting Standards Board (GASB) commonly referred to us as U.S. GAAP. GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting standards.

Basis of Accounting and Measurement Focus

The Agency reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the Agency is that the costs of providing water to its service area on a continuing basis be financed or recovered primarily through user charges (water extraction fees), capital grants, and similar funding. The Agency uses the *economic resources measurement focus* and the a*ccrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Operating revenues and expenses, such as extraction fees and purchase of professional services, result from exchange transactions associated with the principal activity of the Agency. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration, and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

Basic Financial Statements

The basic financial statements are comprised of the statements of net position, the statements of revenues, expenses, and changes in net position, the statements of cash flows, and the related notes to the financial statements.

Cash and Cash Equivalents

Substantially all the Agency's cash is invested in interest-bearing accounts. The Agency considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

Accounts Receivable and Allowance for Uncollectible Accounts

The Agency extends credit to customers in the normal course of operations. When management deems customer accounts uncollectible, the Agency uses the allowance method for the reservation and write-off of those accounts. The Agency considers such factors as historical trends for collections and knowledge of financial stability of debtors to establish the allowance for doubtful accounts. Receivables are written off when management determines that the amount will not be collectible. As of June 30, 2024 and 2023, no allowance for uncollectible accounts receivable was considered necessary as all accounts receivable were deemed fully collectable.

Capital Assets

Capital assets acquired and/or constructed by the Agency are capitalized at historical cost. Agency policy has set the capitalization threshold for reporting capital assets at $5,000 for equipment and purchased software. Internally generated software threshold is set at $50,000. Donated assets are recorded at acquisition value on the date donated. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Depreciable Assets	Estimated useful lives
Equipment	2 to 30 years
Purchased software	2 to 10 years
Internally generated software	2 to 10 years

Net Position

The Agency follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net investment in capital assets* – this component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- *Restricted* – this component of net position consists of constraints placed on net position the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- *Unrestricted* – this component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted component of net position.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position Flow Assumption

When an Agency fund outlays for a particular purpose from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. When both restricted and unrestricted net position is available, it is considered that restricted resources are used first, followed by the unrestricted resources.

Budgetary Policies

The Agency adopts an annual non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

Extraction Charges and Surcharge Fees

Extraction charges are recognized in the period the water is extracted based on reports received from well operators. The Agency considers unreported extraction charge revenue to be immeasurable and does not recognize it until it becomes measurable in the form of a report from the operator. The Agency imposes a $50 per day civil penalty for operators who fail to report timely.

Surcharge fees are assessed annually as of December 31 and payable by February 1, revenue is recognized in the period when received, as amounts are not considered reasonably estimable and are therefore not considered susceptible to accrual.

Financial Reporting

The GASB has issued several pronouncements that have effective dates that may impact future financial statement presentation. The Agency is evaluating the potential impacts of the following GASB statements on its accounting practices and financial statements.

- GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The implementation of this new accounting standard has no significant impact to the Agency's financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- GASB Statement No. 96, *Subscription Based Information Technology Arrangements.* This statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The implementation of this new accounting standard has no significant impact to the Agency's financial statements.

- GASB Statement No. 99, *Omnibus 2022*. The objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The requirements of this Statement are effective for various reporting periods with the last effective date beginning after June 15, 2023. The implementation of this new accounting standard has no significant impact to the Agency's financial statements.

- GASB Statement No. 100, *Accounting Changes and Error Corrections.* The primary objective of this statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The implementation of this new accounting standard has no significant impact to the Agency's financial statements.

NOTE 3 CASH AND INVESTMENTS

Cash and investments as of June 30, 2024 and 2023, are classified in the accompanying financial statements as follows:

	2024	2023
Cash and investments	$ 7,187,863	$ 4,433,278

The Agency's Joint Powers Agreement designates its treasurer to be the Treasurer of Ventura County (a member agency), pursuant to Section 6505.5 of the California Government Code. Therefore, all cash and investments of the Agency as of June 30, 2024 and 2023 are held in the investment pool managed by the Ventura County Treasurer. The Agency's total cash and investments of $7,187,863 and $4,433,278 as of June 30, 2024 and 2023 respectively, consist of a ratable portion of the total investment pool of the County of Ventura.

As provided for by California Government Code Section 53635, the cash balances are invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The County Treasurer invests the Agency's funds in accordance with State statutes and the County's Investment Policy Statement (IPS), as approved by the Treasury Oversight Committee and the County Board of Supervisors.

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

The policy, drafted in accordance with state law, emphasizes safety, liquidity and yield and follows the "prudent investor rule." Investments permitted by the IPS include obligations of the U.S. Treasury, agencies and instrumentalities, or commercial paper rated A-1 or better by Standard and Poor's Ratings Services (S & P) or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements, corporate notes, negotiable certificates of deposit, obligations of the State of California and obligations of any local agency within California. Investment earnings are allocated based on average daily balance in the Treasurer's pool for the calendar quarter. The earnings are distributed to participants twice per quarter as cash is received and accrued at year-end. The investment pool includes both voluntary and involuntary participants for whom cash and investments are held by the County Treasurer. All investments are reported at fair value, which is either the market price or amortized cost. Currently, the Agency does not have any investments subject to the fair value hierarchy.

Please see the Ventura County Investment Policy for more information regarding risks related to credit quality, custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

NOTE 4 CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2024 was as follows:

	Balance July 31, 2023	Additions	Deletions	Balance June 30, 2024
Capital assets being depreciated:				
Equipment	$ 185,063	$ -	$ -	$ 185,063
Software	357,852	-	-	357,852
Total capital assets being depreciated:	542,915	-	-	542,915
Less accumulated depreciation				
Equipment	(185,062)	-	-	(185,062)
Software	(357,853)	-	-	(357,853)
Total accumulated depreciation	(542,915)	-	-	(542,915)
Total capital assets being depreciated, net	$ -	$ -	$ -	$ -

Capital assets activity for the fiscal year ended June 30, 2023 was as follows:

	Balance July 31, 2022	Additions	Deletions	Balance June 30, 2023
Capital assets being depreciated:				
Equipment	$ 185,063	$ -	$ -	$ 185,063
Software	357,852	-	-	357,852
Total capital assets being depreciated:	542,915	-	-	542,915
Less accumulated depreciation				
Equipment	(184,499)	(563)	-	(185,062)
Software	(357,853)	-	-	(357,853)
Total accumulated depreciation	(542,352)	(563)	-	(542,915)
Total capital assets being depreciated, net	$ 563	$ (563)	$ -	$ -

Depreciation expense of $-0- and $563 were charged to operations during fiscal years 2024 and 2023, respectively.

NOTE 5 RISK MANAGEMENT

The Agency is primarily exposed to risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. To protect itself, the Agency contract with the County of Ventura for legal services and maintains an errors and omissions policy of $1,000,000 through the County of Ventura.

NOTE 6 CONCENTRATION RISK

The Agency has the following major customers: Glass House Camarillo Cultivation, United Water Conversation District, City of Ventura, Boskovich Farms Inc., Pleasant Valley County Water District, Leavens Ranches LLC, etc.

NOTE 7 RELATED PARTY TRANSACTIONS

The Agency contracts with the County for professional specialty services. The employees of the County provide professional, technical, financial, billing, administrative, clerical, and computer information services to the Agency. The Agency compensates the County for time spent by County employees on the Agency's business and for the services provided to the Agency by the County. The Agency's total expense paid to the County for Public Works Agency charges other than administrative services for the years ended June 30, 2024 and 2023 are shown as the Ventura County public works agency charges in the Statement of Revenues, Expense and Changes in Net Position. As of June 30, 2024 and 2023, due from County of Ventura amounted to $12,079 and $65,682, respectively.

As of June 30, 2024 and 2023, Due to County of Ventura amounted to $29,713 and $136,795, respectively.

The Agency recognized revenue of $680,009 in 2024 and $625,965 in 2023 from the United Water Conservation District for groundwater extraction fees. The Agency also recognized revenue of $408,407 in 2024 and $92,317 in 2023, from other entities sharing a Board member with the Agency including the City of Camarillo and Camrosa Water District.

Receivables from United Water Conservation District and other entities sharing a board member with the Agency are displayed separately on the Statements of Net Position.

NOTE 8 CONTINGENCIES

The Agency is currently involved in litigation with multiple parties concerning water rights and matters related to California's Sustainable Groundwater Management Act. The Agency does not have groundwater rights, but it is actively participating in the lawsuit to ensure that any resolution is consistent with its groundwater sustainability plans and allocation ordinance. The Agency does not face any liability for damages in connection with the challenges to the GSPs and the allocation ordinance, or the groundwater adjudication. At this time, the Agency cannot reasonably determine the probability of an unfavorable outcome.

NOTE 9 GRANT ADMINISTRATION, REVENUES, AND EXPENSES

During the fiscal year ended June 30, 2023, the Agency entered into two grant agreements with the State of California Department of Water Resources (DWR), each in the amount of $7,600,000, under the 2021 Sustainable Groundwater Management Grant Program – SGMA Implementation Round 1. The Agency serves solely as the administrator of the grants.

As administrator, the Agency executed subgrant agreements with three subgrantees: Pleasant Valley County Water District, United Water Conservation District, and the City of Camarillo. The subgrantees are responsible for implementing the approved projects and will incur all associated project costs. Additionally, each subgrantee is required to reimburse the Agency for its share of administrative costs related to the administration of the grants.

Under the terms of the agreements, subgrantees submit documentation of eligible expenses to the Agency. The Agency then compiles and submits reimbursement requests to DWR. Upon receipt of funds from DWR, the Agency disburses the appropriate amounts to the respective subgrantees.

Based on the above information, the grant does not affect the Agency's net position and has a net zero effect on the statement of revenues, expenses and changes in net position and the statement of cash flows.

NOTE 10 GOVERNMENTAL ACCOUNTING STANDARDS BOARDS STATEMENT ISSUED, NOT YET EFFECTIVE

The GASB has issued several pronouncements, that have effective dates that may impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of the Agency.

- GASB Statement No. 101, *Compensated Absences.* The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

- GASB Statement No. 102, *Certain Risk Disclosures.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2024.

- GASB Statement No. 103, *Financial Reporting Model Improvements.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

- GASB Statement No. 104, *Disclosure of Certain Capital Assets.* The requirements of this Statement are effective for reporting periods beginning after June 15, 2025.

NOTE 11 SUBSEQUENT EVENTS

Management has evaluated events subsequent to June 30, 2024 and 2023 through August 13, 2025, the date at which the financial statements were available to be issued and have determined that no adjustments were necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure.

NOTE 11 SUBSEQUENT EVENTS (CONTINUED)

On October 8, 2024, the Superior Court of California awarded approximately $550,000 in attorneys' fees and costs against the Agency in connection with a case involving groundwater pumping extraction allocations. This event occurred after the financial statement date and does not impact the amounts recognized in the accompanying financial statements. In November 2024, the Agency appealed the trial court's award of attorney's fees and costs.

COMPLIANCE SECTION

RAMS
CERTIFIED PUBLIC ACCOUNTANTS

Report an Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the Board of Directors
Fox Canyon Groundwater Management Agency
Ventura, CA

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State Controller's *Minimum Audit Requirements for California Special Districts*, the financial statements of Fox Canyon Groundwater Management Agency, (the Agency) as of and for the years ended June 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated August 13, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
August 13, 2025

FOX CANYON GROUNDWATER MANAGEMENT AGENCY

FISCAL COMMITTEE

Date: **October 13, 2025**

Subject: **Exhibit E1 – Reserve Policy Resources**

EXHIBIT E1 CONTENTS

Guidelines & Example Policies from Special Districts and Water Agencies

California Special Districts Association
Districts Stronger Together

Special District Reserve Guidelines

SECOND EDITION

A GUIDE TO DEVELOPING A PRUDENT RESERVE.

Acknowledgements

In preparing the Special District Reserve Guidelines, the California Special Districts Association (CSDA) greatly benefited from individuals who were generous with their time and insightful with their views. Our task force consisted of finance staff and general managers from independent special districts, as well as professional financial consultants.

CSDA extends its appreciation to its special district task force members:

- Paul Hughes of South Tahoe Public Utilities District
- Jeff Ramos of Cosumnes Community Services District
- John Rossi of Western Municipal Water District
- Rainy Selamat of Olivenhain Municipal Water District
- Ward Winchell of Southgate Recreation & Park District

To the finance professionals on our task force, who significantly contributed to the development of the principles and guidelines, CSDA extends its sincere gratitude. The contributions of the following were invaluable:

- David Becker, CPA, of James Marta & Company
- Eric S. Berman, MSA, CPA, CGMA of Brown Armstrong Accountancy Corporation
- Russ Powell, Senior Vice President of Economic & Planning Systems, Inc.
- Jim Marta, CPA, of James Marta & Company
- Saul Rosenbaum of the investment banking firm, Prager Sealy & Co, LLC
- Tim Schaefer of the public financial advisory firm, Fieldman, Rolapp & Associates

© 2013

Table of Contents

Printing made possible by the California Special Districts Alliance, a partnership between CSDA, the CSDA Finance Corporation and the Special District Risk Management Authority (SDRMA).

Printed on recycled paper.

PRINTED WITH SOY INK

The Formation of Special District Reserve Guidelines

Answering a Call, Fulfilling a Need

The genesis for CSDA's Special District Reserve Guidelines was a 2000 Little Hoover Commission report entitled, *"Special Districts: Relics of the Past or Resources for the Future?"* The report included a section on special district reserves with an introductory finding that stated: "*Hundreds of independent special districts have banked multi-million dollar reserves that are not well publicized and often not considered in regional or statewide infrastructure planning.*"

The 2000 report raised a number of issues relating to special district reserves including:

- Lack of guidelines and consistency
- Lack of visibility and publication of district financial information
- Lack of understanding among constituents and policymakers of district finances
- Lack of districts incorporating reserve information into infrastructure planning

News media reacted to the Little Hoover Commission report with banner headlines claiming that "obscure" public agencies have "hoarded" billions in reserves. Legislative hearings on special district finances were held and interest was spiked among grand juries, leading them to investigate how special districts within their counties handle reserves.

Ultimately, the Little Hoover Commission recommended that guidelines for prudent reserves be established, and that investment policies and practices be reviewed to determine if additional oversight was warranted.

© 2013

...many independent special districts already have established reserve policies and most, if not all, special district officials recognize their fiduciary responsibilities and take them seriously.

CSDA Reserve Guidelines Task Force

Although special district advocacy organizations disagreed with some of the Little Hoover Commission's findings and data interpretation, CSDA concurred that the establishment of reserve guidelines would assist special district governing officials and administrators in fulfilling their fiduciary responsibilities. To accomplish this, CSDA formed a task force in 2001 to identify both the essential elements of a reserve policy and the issues to be discussed during policy development.

The Special District Reserve Guidelines were developed by the task force as a tool for special district governing officials and administrators to assist them in fulfilling their commitment to provide cost-effective and efficient public services for the communities they serve.

Special District Reserve Guidelines

Second Edition

Today, with over a decade having passed since CSDA convened its original task force in 2001, many special districts have utilized the guidelines to evaluate their reserve policies, develop new reserve policies, and/or promote comprehensive and easily understood policies.

Through this decade-long process, special districts have gained new insights on improved best practices. Furthermore, certain accounting practices and terminologies have evolved. Therefore, in order to ensure the most accurate and updated guidelines, and in continuance of efforts to promulgate widespread adoption, CSDA commissioned a second task force in 2012 to produce a Special District Reserve Guidelines, Second Edition. CSDA encourages district officials to incorporate these new guideline elements into their policies, where applicable, based on size and services offered.

In developing and updating the second edition, the CSDA task force recognized that many independent special districts already have established reserve policies and most, if not all, special district officials recognize their fiduciary responsibilities and take them seriously. What may have generated most of the concern regarding special district reserves in 2000 is not lack of policy, but lack of outreach to constituents and others regarding district operations. It is essential that special districts continue to promote understanding outside their boardroom and perform outreach on district financial management to facilitate understanding among the public, media and legislators.

Introduction

> Reserves are the foundation of the sustainable delivery of core services.

Importance of Maintaining a Reserve

Reserves are the foundation of the sustainable delivery of core services. Through prudent reserves, special districts offer taxpayers and ratepayers significant benefits including:

1. Savings to balance budgets
2. Emergency preparedness
3. Stable rates
4. Well-maintained infrastructure
5. Investment in the future

The fundamental question in maintaining a reserve is, how much is enough? In other words, when are reserves too low and when are they too high? These can be delicate questions because unwarranted reserves could undermine taxpayer and ratepayer support, while insufficient reserves could jeopardize the district's long-term sustainability.

There is also the question of where reserve funds should be spent. Pressure to expend reserves on making current services cheaper, rather than planning for the future, is all too frequent. Adopting a reserve policy will assist your agency in answering these fundamental questions.

Reasons for Adopting a Reserve Policy

In addition to the over-arching taxpayer and ratepayer benefits of reserves noted earlier, there are many specific reasons for a special district to adopt reserve policies:

Shared Vision:
A formally adopted policy promulgates a shared understanding of the proper level and use of reserves, which facilitates healthy working relationships.

Objectivity:
Revenue decisions represent some of the most controversial and difficult choices that governing boards must face. Utilizing reserve policies reduces political gamesmanship and promotes responsible long-term planning.

Fiscal Justification:
Inevitably, public agencies will face scrutiny over whether to raise or reduce rates, taxes or fees. Having reserve policies in place prior to such occasions serves as a valuable tool for both making and explaining difficult decisions.

Public Awareness:
Keeping the public informed about what you do is a fundamental responsibility for any public agency. They are the boss, after all, and all of us understand from personal experience that our jobs are a lot easier and a lot less stressful when the boss knows about and approves of what you are doing. Adopting a policy can help the district better communicate to the public the motives for adopting a reserve, as well as convey the reasons for maintaining the reserve at a certain level.

Important questions about reserves

The fundamental question in maintaining a reserve is, how much is enough? In other words, when are reserves too low and when are they too high? These can be delicate questions because unwarranted reserves could undermine taxpayer and ratepayer support, while insufficient reserves could jeopardize the district's long-term sustainability.

Prudent Accumulation and Management of Reserves: Developing Policy

Each special district should develop and adopt a reserve policy.

The Special District Reserve Guidelines reflect the common belief among special districts that there should be a clear and well-articulated rationale for the accumulation and management of reserve funds. Each special district should develop and adopt a reserve policy as a commitment to financial prudence and careful stewardship of community assets. It is critical to understand that a reserve fund is designated by a public agency to carry out specific purposes in a manner consistent with other financial policies, budgetary practices, district programs, and legal requirements.

Reserve Policy Objectives:

1. To provide adequate funding to meet the agency's short-term and long-term plans.
2. To minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures, thus minimizing the possibility of unplanned service fees or rate fluctuations.
3. To strengthen the financial stability of the agency against present and future uncertainties in an ever-changing environment.

Foundational Elements of a Reserve Policy:

Prior to developing a reserve policy, a district should first establish the three prerequisites below.

1. Clear, organizational philosophy/mission.
2. Policy-oriented board of directors, with long-term focus on fiscal sustainability.
3. Standardized method of financial reporting, such as Governmental Accounting Standards Board (GASB) Statement Nos. 34 and/or 54.

California Special Districts Association
© 2013

Communicating regularly about district financials and reserve priorities creates trust.

Principles for Developing a Reserve Policy:
1. Identify the uniqueness of the district. a. Consider district goals, needs and constraints. b. Utilize life-cycle analysis if district is capital intensive. c. Regularly measure condition of assets.
2. Form a complete understanding of the district's core business and significant cost drivers for district operations.
3. Engage in strategic planning. a. By developing, regularly evaluating and, when necessary, modifying strategic plans, districts can more efficiently plan and shape their futures. Strategic planning can help district boards anticipate and adapt to changing environmental, regulatory and demographic conditions. This assists districts in establishing appropriate reserve funds and adopting adequate target levels. b. Seek community input in the strategic planning process, i.e., ratepayers and taxpayers, business groups, community organizations, other public agencies serving the same constituency, etc.
4. Make communicating a priority. a. A regular newsletter and annual report are good starting points; it is critical for districts to reach out to the public and explain their financial position. b. Seek input through customer surveys, community meetings, and other meaningful engagement. c. Inform customers and constituents of output and seek their input in evaluating policies.
5. Recognize that a good reserve policy must be consistent with other financial policies, such as a balanced operating budget and investment policies.
6. Create and maintain a well-developed capital improvement plan.
7. Estimate the ebb and flow, or "seasonality," of cash-flow during the fiscal year and build a basic understanding of the degree of short-term borrowing necessary to meet such needs.
8. Clearly identify reserves–both categories and purposes. Set target levels for reserves that are consistent with the district's mission, the district's uniqueness and the philosophy of the district's board and community.
9. A broad reserve policy may include many elements or sub-policies. Some areas that may need sub-policies include: a. Rate-stabilization funds b. Fees and charges c. Debt issuance and management d. Deferred maintenance e. Level of unrestricted (contingency) funds f. Long-term repair and replacement

Fund Balance and Net Position/Net Assets

Every district has unique circumstances and a proper fund balance should be considered on a case-by-case basis.

There are many factors that must be considered when establishing an appropriate fund balance and ensuring the prudent management of your district's finances. Every district has unique circumstances and a proper fund balance should be considered on a case-by-case basis. Thoughtfully accounting for variables such as your district's revenue sources and income volatility will assist your district in determining its reserve amount. On the following pages are issues that should be considered when adopting a reserve level.

© 2013

Specific Considerations for Budgeting and Allocating Fund Balance or Net Position/Net Assets

Considerations
1. Define the special district's fiscal objectives: a. Short-term b. Long-term c. Operating d. Capital
2. Identify where funds are used: a. Operating revenues are the general-purpose funds through which ongoing activities are funded. b. Special-purpose revenues often are legally restricted for a particular use. For example, a special assessment for infrastructure must be separately accounted for and spent on designated infrastructure costs. c. Debt proceeds should be used to fund costs that provide a benefit across fiscal years. The issuance of debt allows the district to allocate these costs by spreading the debt service to these periods. Debt proceeds should never be used for short-term operating costs because this would entail allocating current operating costs to future periods. d. One-time revenues should be used for one-time expenses. If a special district gets one-time revenues and uses it to provide additional full-time positions or to fund on-going operating costs, it may lead to a budget crisis when the one-time funding runs out.

One-time Revenue

According to the Government Finance Officers Association, "Examples of one-time revenue include: infrequent sales of government assets, bond refunding savings, infrequent revenues from development and grants. These revenue may be available for more than one year (e.g. , a three-year grant) but are expected to be non-recurring."

One-time Expenditures

According to the Government Finance Officers Association, "Examples of expenditures which a government may wish to use one-time revenue include start up costs, stabilization (e,g. to cover expenditures that temporarily exceed revenues), early debt retirement, and capital purchases."

Components of Fund Balance

In governmental funds, "reserves" typically comprise a portion of the total fund balance. Fund balance reporting standards play a part in describing how much of fund balance might be available for a reserve and how much is limited to other purposes. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* changes how fund balance has traditionally been reported.

In the past, reporting of fund balance focused on whether resources were available for appropriation (i.e., budgeting) and distinguished between "unreserved fund balance" (i.e., available for appropriation) and "reserved fund balance" (i.e., not available for appropriation). GASB Statement No. 54 changes the focus to the "extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent" and establishes five different components of fund balance:

COMPONENTS OF FUND BALANCE

NONSPENDABLE FUND BALANCE	RESTRICTED FUND BALANCE	COMMITTED FUND BALANCE	ASSIGNED OR DESIGNATED FUND BALANCE	UNASSIGNED OR UNDESIGNATED FUND BALANCE
This category is inherently nonspendable, such as the long-term portion of loans receivable, the principle of an endowment and inventories.	This classification has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors or laws or regulations of other governments.	This encompasses limitations imposed by the special district upon itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might commit a portion of fund balance to a "stabilization fund" to provide a cushion against unknown economic shocks and revenue declines.	This portion is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or official designated for that purpose. For example, a share of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or an allotment could be assigned for an upcoming special project.	This comprises all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.

\+ ⟵ CONSTRAINED ⟶ −

Unassigned fund balance is typically the primary subject of a reserve policy. However, committed and assigned fund balance may also be thought of as part of a reserve policy as the governing board or management, respectively, has some control over the balances. Conversely, restricted fund balances or nonspendable fund balances are fundamentally constrained, making it unnecessary to place parameters on them through reserve policy in order to achieve prudent savings and expenditures of public resources.

It is recommended that every district establish policies regarding minimum fund balance and spending priorities in order to communicate to users the importance of a reserve for economic uncertainties, why it consists of amounts that are unassigned and that it is not available for spending.

Districts' policies should specify the order in which fund balances are spent when more than one amount is available for a specific purpose. Where such policies do not exist, GASB 54 prescribes that the default order in which these amounts should be spent is committed, assigned, and then unassigned.

GASB 54

According to the Governmental Accounting Standards Board, statement No. 54 was issued after, "...research revealed that the existing standards guiding fund balance reporting were being interpreted inconsistently by different governments. Consequently, the fund balance information reported by many governments also was inconsistent. It also became clear that the understandability of fund balance information was affected and that financial statement users were unable to readily interpret reported fund balance information."

GASB fact sheet about Fund Balance Reporting and Governmental Fund Type Definitions

Sample Policy Language

The "X" district maintains a minimum unassigned fund balance of not less than "X" percent of budgeted general fund expenditures and other financing uses as a reserve for economic uncertainties. The district believes a reserve of this level is prudent to maintain a high bond rating and to protect the district from the effects of fluctuations in property tax revenues to which special districts are vulnerable. Because amounts in the nonspendable, restricted, committed and assigned categories are subject to varying constraints on their use, the reserve for economic uncertainties consists of balances that are otherwise unassigned.

© 2013

Reserve Level Targets

A reserve policy must set a target level of reserves to maintain. The target is typically defined in terms of unrestricted fund balance as a percentage of either regular operating revenues or regular operating expenditures. The choice between revenue and expenditures as a basis depends on which element is more predictable. A government that relies heavily on property taxes typically would choose revenues, whereas a government with a less predictable revenue portfolio might choose expenditures. In either case, the base should only reflect operating numbers and should remove the effect of unusual spikes or drops that would distort long-term trends.

With the basis of the target defined, the next step is to select a reserve-level target number. The Government Finance Officers Association (GFOA) offers guidance as to the amount of unassigned fund balance governments should maintain in their general fund operating revenues or regular general fund operating expenditures, regardless of size. As special-purpose governments, special districts should carefully balance such general advice with the unique circumstances associated with the district's operational environment.

In considering what constitutes adequate reserves, a special district may want to establish key benchmarks or ratios. Many industries have key equity target formulas or ratios that establish minimums to provide a red flag warning when equity may be too low. Some of those ratios may include the following:

- Debt to Equity
- Property Taxes to Equity
- Current Ratio
- Capital Outlay to Equity
- Capital Outlay to Operating Expenses

Certain districts may establish their own ratios based on the unique aspects of the district or an operating environment that may be different than other organizations in their industry.

Local Conditions as a Basis

The Government Finance Officers Association notes that fund balance is ultimately a local decision based on local conditions. "...Finance staff should analyze the risks that influence the need for maintaining reserves as a hedge against uncertainty and loss."

(p.57, GFOA, Financial Policies)

Articulating Financial Position and Decisions

Is this organization in good financial shape? That depends on the condition of the current assets and the short-term and long-term needs of the organization as they relate to its resources. If there exists significant current infrastructure needs, then financing may be required. Is enough set aside for contingencies? If water costs increase by 10 percent, or new environmental or health standards are issued, how will that affect total net assets?

Governmental entities collect, hold and expend resources in public trust. If too little is collected, they risk failing to meet mandated needs. If too much is collected, they overburden the public and tie up resources that taxpayers and ratepayers could use in the economy. Historically, governments have been known to spend most of their resources each year and too often fail to properly plan for long-term needs. Special districts should carefully examine their operations and budget to ensure that expenses, such as capital needs and contingencies, are anticipated and appropriate resources are set aside.

Some governments, either through good fortune or good planning, have reserved net assets for future plans and needs. What most governments have failed to do, as emphasized in the 2000 Little Hoover Commission's report, is to effectively communicate their plans for the net assets and explain why the balance is appropriate.

Each special district needs to:

1. Analyze its financial position.
2. Examine its current and long-term needs, including a capital improvement plan.
3. Establish its target fund balance or net assets.
4. Outline its goals and needs through policy, budgets and enhanced financial statement note disclosures.
5. Anticipate public scrutiny of financial statements and proactively communicate how finances are being used in a manner the public can easily digest.

© 2013

Conclusion

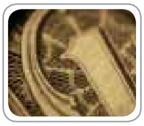
It is recommended that special districts, at minimum, conduct a review of their reserve policy annually to ensure it meets the needs of the district and is in compliance with any requirements/ standards that may have changed.

Each special district's financial and legal professionals should review reserve policies prior to adoption to ensure they are in compliance with all current laws and regulations. Reserve policy should be established based on each district's unique financial situation. Any reserve policy needs to be reviewed regularly as the financial environment within which it functions is dynamic and there may be applicable legislative or regulatory changes.

The 2000 Little Hoover Commission report concluded that there was a disconnect between special districts and their constituents and other local government entities. Therefore, it is important that each agency not only develop a reserve policy, but ensure that stakeholders know and understand the district's financial position and decision-making process.

Districts should consider preparation of a public outreach program to communicate financial and program information on a regular basis to affected or interested populations. How involved each respective public outreach program is for a district is typically determined by the size and complexity of the district. A first step may be as simple as adding the information to an agency's website or the development of an annual report. CSDA encourages districts to take the next step and proactively engage the public to ensure its awareness.

We hope you find these guidelines helpful and if you have any comments or suggestions on how we can improve this document, please contact us at 877.924.2732.



Addendum I: Glossary

Assigned Fund Balance: Amounts that are intended to be used by the special district for specific purposes but do not meet the criteria to be classified as restricted or committed.

Capital Improvement Program (CIP): A short-range plan that identifies capital projects and equipment purchases, provides a planning schedule and identifies options for financing the plan.

Committed Fund Balance: Amounts that can only be used for the specific purposes as determined by a formal action of the special district's highest level of decision-making authority.

Net assets: The amount of assets in excess of liabilities. For non-enterprise fund types, this excess is referred to as "fund balance." For enterprise-fund types, this excess is referred to as "net assets" or, as of July 1, 2012, "net position."

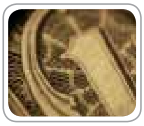
Nonspendable Fund Balance: Amounts that cannot be spent or where cash has been spent previously to produce a fund balance – for example, inventory, pre-paid expenses or restricted assets.

Pay-Go: Is the practice of financing expenditures with funds that are currently available rather than borrowed.

Restricted Fund Balance: Amounts that can only be spent for specific purposes which are stipulated outside the control of the special districts, such as the constitution, external resource providers (such as granting entities) or enabling legislation.

Unassigned Fund Balance: The residual of all other funds that are not nonspendable, restricted, committed or assigned. Unassigned balances are not in special revenue, capital projects, permanent or debt service funds unless the fund is in deficit.

© 2013



Addendum II:
Special District Reserves Talking Points

PRUDENT RESERVES MAKE FOR SOUND BUDGETING

For countless families, saving for a rainy day is common-sense. For special districts, reserve funds are not just money in a bank; they are fundamental resources for ensuring reliable core services and community security.

How Taxpayers and Ratepayers Benefit

Special districts designate money toward savings in order to balance their budget, respond to emergencies, keep rates affordable, maintain current infrastructure and plan for future public works projects.

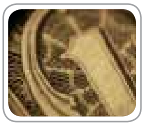
- Balancing Budgets – Over the course of the fiscal year, short-term reserves help balance the ebb and flow of revenues verse expenditures.
- Emergency Preparation – In the event of a disaster, communities can't afford not to have savings readily available to quickly repair critical local infrastructure and bring core services back online.
- Affordable Rates – With appropriate savings, special districts are able to use resources wisely and smooth out the highs and the lows of volatile economic conditions, rather than spend their entire surplus and then seek new revenue or jeopardize services.
- Infrastructure Maintenance – Reserves mean the pipes are fixed, roofs are patched, and worn equipment is replaced without going back to the taxpayers or ratepayers to pay for routine upkeep.
- Planning for the Future – A long-term, thoughtful approach to public infrastructure requires the foresight to plan for, and discipline to save for, future needs.

Reserves are Much More than Liquid Assets

- What comprises a reserve fund? Reserve fund balances and net assets are not just cash and investments. They also include the net value of capital facilities, land and equipment measured from the very inception of the district.
- Assigned funds are budgeted for specific long-term public needs as planned by the board of directors.
- Committed funds are set aside via established policies for specific uses such as cash-flow, capital improvements, contingencies, and rate stabilization.
- Restricted funds are limited by legal or contractual requirements, or cannot otherwise be spent.

Best Practices for Sensible Budgets

- Historically, governmental agencies and departments have been known to spend everything they have before the end of the fiscal year in order to justify increased future allocations from their larger bureaucracy.
- Special districts are different because they empower core local service providers with budgetary control, encouraging efficiency and fiscal restraint rather than punishing it.
- The CSDA Reserve Guidelines Task Force identified both the essential elements of reserve policies and key issues to be discussed during reserve policy development to assist districts in fulfilling their commitment to provide cost-effective and efficient public services to their communities.



Addendum III: Capital Planning

A Capital Improvement Program (CIP), also referred to as a capital plan, exists to identify and prioritize a special district's need for capital goods. A CIP should prioritize the importance and timing of the various assets to be acquired. In addition, a CIP should contemplate how those goods will be paid for – cash (equity) or debt. A capital plan is a strategic and comprehensive plan for the acquisition and implementation of the district's capital assets over time. In that sense, it is different from a finance plan, which focuses on individual acquisitions and how to pay for them.

To fulfill their mission, every district makes capital investments. Debt, especially tax-exempt debt, is recognized as an important and continuing source of a district's capital to fund improvements necessary to achieve its mission and strategic objectives. A CIP provides the framework by which decisions will be made regarding the use of cash and debt to finance capital projects.

Debt is defined to include all short and long-term obligations, guarantees and instruments that have the effect of committing the district to future payments. The assumption of debt, both direct and indirect, is subject to the district's approval. Any debt issued by subsidiary entities is subject to these policies. In satisfying their fiduciary responsibilities, it is important that a district's board and management know the extent of debt obligations.

CIP Objectives

1. To provide guidelines to management on the use of reserves and debt to support a special district's capital needs while achieving the lowest overall cost of capital.
2. To provide selected financial measures, with specific targets, to ensure that the district continues to operate within appropriate financial parameters while allowing the agency to maintain financial stability and the highest acceptable credit rating that permits it to issue debt at favorable rates.
3. To bridge the cash flow gap between the district's available funds and its capital needs when the assumption of debt is deemed prudent.

Creating a Capital Plan

1. Establish goals
2. Assess needs
3. Determine pay-go or borrow
4. Identify methods available for funding
5. Design the loan–the tactical plan
6. Organize approach

Details on the following pages.

© 2013

Establish Goals

The key elements in setting clear capital plan goals include:

1. *Understanding the role of the planning horizon.* Planning horizons are important considerations in well-developed capital plans. For example, it makes little sense to try to plan for a 10-year or 20-year horizon if innovation, technology, demographics or legislative threats to the plan occur frequently or on short notice. Conversely, agencies that are in low-technology businesses and stable demographic circumstances can more effectively and more appropriately plan for long periods. Planning horizons should mirror long-term repair and replacement requirements of existing facilities.
2. *Integrating the use (or lack thereof) of reserves.* The extent to which a particular district has accumulated reserves will dramatically impact the CIP. The development of, and adherence to, strong reserve policies can greatly simplify funding choices for a capital plan, but blind adherence to arbitrary reserve levels can be just as inhibiting as no reserves at all. The key is to make reserve accumulation, or depletion, work in harmony with the CIP, operating budget and risk management of the district.
3. *Recognizing the repetitive nature of implementing the CIP.* A capital plan is by its nature repetitive. For that reason, many districts choose to review and update it annually, usually as an adjunct to deliberation of the operating budget. This keeps the CIP current and tempered by present information on the priorities of the district.

Assess Needs

Every capital plan starts with a needs assessment. The assessment should be based on a comprehensive review of the agency's assets at the time an asset is recorded and an estimated useful life is assigned to each asset. This information later will be used as an indicator of when an asset is scheduled to be replaced. Estimated future replacement costs need to be obtained in order to reasonably estimate CIP fund requirements within an agency's long term financial plan.

Determining Pay-Go or Borrow

The "pay-go" method of using current revenues to pay for long-term infrastructure and other projects is often considered when sufficient revenues and reserves are available and long-term borrowing rates are higher than expected cash reserve fund earnings.

On the other side of the spectrum, the "pay-as-you-use" or "borrow" strategy limits the need for building of major amounts of equity in capital assets. Such accumulation can be less economically efficient, particularly for those districts that are capital intense and whose capital goods are "used up" over long periods of time. Similarly, financing of smaller capital goods, or those with short or uncertain useful lives, is also inefficient. The rationale behind the borrow approach is that the district's stakeholders should "pay" for the assets required to deliver the goods or services of the agency over a time period that more closely mirrors the useful life of those assets.

Most districts use a blended approach based on their debt management policy. Often, a district's approach is dictated as much by affordability as by philosophy, given that few public bodies are capable of paying cash for all capital assets.

Identify Methods Available for Financing

Once the goals have been set, the needs assessed and the decision whether to pay cash or finance the asset has been made, some thought must be given to the method of financing. For example, even if an asset is to be procured for cash, and the cash is on hand in a reserve set aside for that purpose, a decision still must be made on whether to replenish or restore that reserve, and over what time period and from what source it will be replenished.

Choosing to issue debt means that the following choices must be made: form of debt, mode (fixed or variable rate), repayment terms and method of sale. These are the tactical decisions that often blur the understanding of the strategic elements of the capital plan.

Design the Loan – The Tactical Plan

If a decision is made to borrow, an array of choices will follow. Some districts choose to borrow from banks or private lenders; others choose public offerings of debt. Lease financing may be considered as an alternate to bond financing. Some districts pool their needs with other similarly situated districts in order to reduce costs through economies of scale.

Regardless of the choice of lenders or approach matching the useful life of the financed asset to the borrowing term is an important consideration. Common sense tells us that we should hesitate to finance automobiles with 30-year bonds. By the same token, a water treatment plant with a design-life of 50 years can be safely and prudently financed over long periods of time. Still, debt issuances over 30 years are rare.

This element of the CIP should also carefully consider other needs within the strategic plan when pledging assets or revenues to lenders. A generous package to a lender on today's asset may make tomorrow's asset financing problematic or impossible. The key is to ensure that each tactical financing plan within the capital plan works harmoniously with other elements of the plan and is flexible enough to allow for the inherently changing nature of the CIP.

Organize the Approach

The successful capital planning process looks a great deal like the successful budgeting process. The end-result articulates the goals and objectives of the organization to all stakeholders and relies on an accurate and unbiased assessment of needs. It provides for an evaluation of the desired assets to distinguish between "wants" and "needs." It is written and shared with the district's stakeholders.

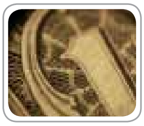
The capital plan is revisited often and provisions for changing or amending it are straightforward. Finally, it incorporates periodic analysis of results and achievements for management and the governing body.

Summary

A CIP need not be elaborate or weighty to be effective. Many effective capital plans consist of a single spreadsheet and several paragraphs of supporting text. The development of the program is vital to the efficient use of capital. It is a key ingredient in a lender's assessment of management's effectiveness and control. It is among the most important tools an elected official possesses to discharge the duties of office.

Readers who are interested in additional information about the development of capital plans should consider a variety of books, and other information sources, on the topic. Some suggested examples are shown in the attached resource listing at the back of this document.

© 2013



Addendum IV: Resources

The Government Finance Officers Association (GFOA) is a great source for more information regarding various government financial matters, including fund balance and financial reporting. GFOA has an extensive publications department. View a list of its full offerings at www.gfoa.org. The following publications may be useful:

1. "An Elected Official's Guide to Financial Reporting"
2. "Best Practice – Replenishing Fund Balance in the General Fund"
3. "Governmental Accounting, Auditing, and Financial Reporting"
4. "Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting"

The Governmental Accounting Standards Board (GASB) has a number of user guides written by the standard setter for use in many types of governments. These include:

1. *An Analyst's Guide to Government Financial Statements—revised, updated, and significantly expanded*
2. *What You Should Know about the Finances of Your Government's Business-Type Activities—a completely new guide for 2012*
3. *What You Should Know about Your Local Government's Finances*

In addition, in 2013, GASB is expecting to publish a guide directed at "Business-Type Activities." Most special districts in California are "Business-Type Activities."

CSDA

California Special
Districts Association

Districts Stronger Together

1112 I Street, Suite 200
Sacramento, CA 95814
toll-free: 877.924.2732
csda.net

Camrosa Water District
Statement of Reserve Fund Policy

Purpose:

It is the intent of the Board to maintain adequate reserves for ongoing needs, to minimize the need for new debt financing for future capital projects and to maintain an affordable and stable rate structure. This statement is intended to provide guidelines for the maintenance of the financial reserves of the District. The ultimate goal of this statement is to identify the categories of reserves to be maintained, to establish the method for identifying the need for each category of reserves, to identify the sources of contribution to reserves, and to provide for periodic review of both reserve levels and this reserve policy.

Scope:

This reserve fund policy applies to all financial reserves of the District, as well as other funds that may be created from time to time which shall also be administered in accordance with the provisions of this policy. It includes reserves in the form of investments monitored and controlled by the Board as well as reserves held in trust in accordance with the covenants of specific debt issuance instruments.

Policy:

The budget for the District shall be prepared in a manner that assures adequate reserves for ongoing needs while minimizing the need for new debt. In particular, contributions to reserves shall be established at levels that will accumulate necessary funds to:

- establish sound formal fiscal reserve policies to ensure strong fiscal management to guide future District decisions;
- increase system capacity and accommodate growth;
- provide funding for current and future replacement of existing assets as they reach the end of their useful lives;
- meet unanticipated emergencies;
- help smooth rates from year-to-year, and to promote equity over the years to ratepayers; and
- meet the covenants of outstanding debt issues and other agreements.

All reserves must be identifiable to one of these purposes; reserves shall not be accumulated in excess of levels needed to satisfy these purposes. Reserves may, as deemed prudent by the Board, be used to satisfy more than one purpose.

Classification of Reserves:

Two primary classifications of reserves are established, each with several categories to earmark reserves for specific purposes identified in the policy above.

Restricted Assets There are three primary categories of restricted assets as follows:

a. *Debt Covenant Reserves* are established in accordance with covenants of specific debt issuance instruments.
b. *Specific Agreement Reserves* are established in accordance with agreements between the District and other agencies.
c. *GIP Reserves* are funds earmarked for near-term expenditure under the approved Capital Improvement Plan (CIP) for the current fiscal year.

These reserves may only be used for the specific purposes outlined in the debt issuance instrument, the agreement with another agency or the annual CIP and may not be used to meet reserve levels required for other purposes.

Designated Reserves are established by the Board to meet purposes other than those identified to restricted assets. The categories of reserves that fall under this classification are:

a. ***Capital Improvement Fund (CIF)*** - Capital cost recovery fees collected from developers to obtain entitlement to existing water and wastewater capacity and to fund construction of capacity expansion are segregated in the CIF.

Applicable Funds: Potable, Non-Potable and Wastewater Capital Improvement Funds.

b. ***Capital Replacement Fund (CRF)*** - Funds are for both short-term and long-term purposes. The objective is to provide funds for the current and future replacement of existing capital assets as they reach their useful lives.

Applicable Funds: Potable, Non-Potable and Wastewater Capital Replacement Funds.

c. ***Rate Stabilization Fund (RSF)*** - Funds operate as a buffer to water and wastewater rates during any period where there is an unexpected increase in operating costs or decrease in revenues. For example, in the event of an unexpected rate increase from Calleguas/MWD and the District chooses not to pass the increase on to its customers immediately, this fund could cover the shortfall in revenue. In addition, in a severe drought or extremely wet conditions, it is reasonable to expect that water sales could fluctuate significantly. The Rate Stabilization Fund will absorb these types of fluctuations in operations and help stabilize rates. A secondary purpose is to assure minimum debt service coverage of the District's bond covenants. In calculating debt service coverage, contributions from the RSF will be treated as revenue.

Applicable Funds: Potable, Non-Potable and Wastewater Rate Stabilization Fund.

d. ***Operating and Emergency Reserves (OER)*** - Funds designated to provide financial flexibility in the day-to-day conduct of district business and to respond quickly to emergency situations that may pose threats to public health and the District's ability to sustain safe or reliable service.

   Applicable Funds: Potable, Non-Potable and Wastewater Operating and Emergency Reserve Fund.

e. ***Unfunded Accrued Liability (UAL)*** - Funds are for both short-term and long-term purposes. The objective is to provide funds needed to fully fund accrued liabilities. UAL payments are a dollar amount adjusted annually by CalPERS.

Applicable Funds: Potable, Non-Potable and Wastewater Operating Unfunded Accrued Liability Fund.

The Board of Directors may review fund designations from time-to-time and establish new or eliminate established designated reserve funds as operational needs may dictate.

<u>Sources of Funds:</u>

The source of funds for each category of reserves varies. For Restricted Assets, the source of funds to meet bond covenants or terms of individual agreements is specified in the debt issuance instrument or agreement that mandated the establishment of a reserve. Use of the funds is limited as specified in the covenants of the agreement. Reserves earmarked for near-term expenditure under the approved Capital Improvement Plan (CIP) for the current fiscal year will be deducted from the appropriate Designated Reserve and established as a Restricted Asset.

In the case of Designated Reserves, contributions may come from several sources as follows:

a. ***Capital Improvement Fund (CIF)*** - Accumulated capital fees collected during property development to ensure adequate water and wastewater system capacity.

b. ***Capital Replacement Fund (CRF)*** - Contribution from net operating results.

c. ***Rate Stabilization Fund (RSF)*** - Contribution from net operating results from operations at the discretion of the Board to maintain the fund balance and to stabilize rates and meet the District's bond covenants.

d. ***Operating and Emergency Reserves (OER)*** - Contribution from net operating results after all other contributions to reserves have been made.

e. ***Unfunded Accrued Liability (UAL)*** - Contribution from net operating results or Capital Replacement Fund.

The contribution of revenues of the District to meet replacement needs is based upon expected replacement costs and expected remaining life of the various assets.

Expenditure of Reserves:

Expenditure of reserves is authorized as part of the annual budget process. Capital Replacement projects are individually authorized and may be designated either as Capital Improvement, Capital Replacement, Fixed Asset or a combination of, and funded from the appropriate reserve funds.

Prior to the expenditure of funds from any capital replacement fund, an analysis shall be conducted to determine if the asset has truly come to the end of its expected life and the asset is still required to meet the needs of District customers for the foreseeable future. In all cases, application of new technology should be considered to improve efficiency and economy of District operations.
Designated Reserves may also be used at the discretion of the Board to meet unanticipated financial needs such equipment failures, damage caused by natural disaster or other emergencies requiring funds beyond annual revenues. Funds contained in the Rate Stabilization Funds may be used to manage rates and rate increases and to offset sudden and unanticipated losses in revenue, such as reduced water and wastewater sales. These funds may be used to compensate for losses resulting from sudden increases in wholesale water rates and increases in water and wastewater operating costs and may be used to meet the minimum debt service coverage required in accordance with specific debt covenants. The contribution to and utilization of the Water and Wastewater Rate Stabilization Fund may be budgeted in the District's Annual Budget or utilized in an unanticipated financial need.

Levels of Reserve Funds:

Adequate levels of reserves are critical to the successful and stable short- and long-term operation of the District. Sufficient reserve fund balances will ensure that customers experience both stable rates for service and the security that the District can respond to short-term emergencies. Sufficient reserves will provide the overall financial strength to the District to protect its bonding capacity and to finance and construct the infrastructure necessary to renew existing systems and expand service levels to meet future needs. Rates and fees should be maintained at a level to ensure the balance within the various reserve funds are sufficient to meet the specified needs for the reserve funds without generating funds surplus to the District's needs.

a. ***Restricted Assets*** - Reserves required by debt agreements and funds designated to fund the current year CIP will be maintained at 100% of level required by each reserve category. Funds in these reserve accounts will not be used to meet the required reserve fund balance for any other category of reserves.

b. ***Capital Replacement (CRF)*** -At the beginning of each budget year, each reserve fund balance should be a minimum of 5% of the projected capital asset replacement value to determine the target level for the Capital Replacement Reserves.

c. ***Capital Improvement (CIF)*** - The CIF is used for new development and is development driven as are the costs incurred; therefore, no minimum or maximum.

d. ***Rate Stabilization Fund (RSF)*** - This fund is used to stabilize 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. The scheduled target will be 10% of the prior year's rate revenue. Rate revenue is defined as revenue generated from the commodity charges only.

e. ***Operating and Emergency Reserves (OER)*** - The minimum target OER balance shall be the 45-Day average of operating expense budget (excluding wholesale water costs).

f. ***Unfunded Accrued Liability (UAL)*** - The target is to be 100% percent funded with a zero UAL balance. To attain 100% funding level the use of reserves may be set aside in the UAL fund to apply additional discretionary payments towards the liability.

Review:

An annual review of reserve levels is necessary during the budget preparation process to ensure proper levels of reserves are maintained. In addition, this reserve policy shall be reviewed by the Board on a biennial basis to ensure continued conformance with long-term Board strategy.

RESOLUTION NO. 1829

A RESOLUTION OF THE BOARD OF DIRECTORS
OF CALLEGUAS MUNICIPAL WATER DISTRICT ADOPTING AND IMPLEMENTING A FINANCIAL RESERVE POLICY AND RESCINDING RESOLUTION NO. 1742

WHEREAS, the purpose of the Calleguas Municipal Water District (Calleguas) Financial Reserve Policy is to ensure that Calleguas continues to have sufficient funding available to meet its operating, non-operating, capital and debt service obligations; and

WHEREAS, adequate reserves and sound financial policies maintain Calleguas' bond ratings in the capital markets, provide financing flexibility, and sustain debt covenant compliance; and

WHEREAS, the Financial Reserve Policy establishes various reserve categories, defines the purpose and use of these funds, and identifies target levels.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF CALLEGUAS MUNICIPAL WATER DISTRICT RESOLVES AS FOLLOWS:

Section 1. The policy is set forth in the Calleguas Municipal Water District Reserve Policy attached hereto as Exhibit A.

Section 2. On an annual basis, the Board of Directors shall review the Financial Reserve Policy and make any modifications which it deems necessary or desirable.

Section 3. Resolution No. 1742 adopted on April 18, 2012 is hereby rescinded effective at 12:01 a.m. on April 30, 2014, at which time this Resolution No. 1829 shall become effective.

ADOPTED, SIGNED AND APPROVED this twenty-ninth day of April, 2014.

Scott Quady, President
Board of Directors

I HEREBY CERTIFY that the foregoing Resolution was adopted at a meeting of the Board of Directors of Calleguas Municipal Water District held on April 29, 2014.

ATTEST:

Andres Santamaria

Andres Santamaria, Secretary
Board of Directors

Calleguas Municipal Water District

RESERVE POLICY

Purpose of Reserve Policy

Prudent financial planning and fiscal responsibility include anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The reserve funds enable Calleguas Municipal Water District to minimize significant rate fluctuations due to both unforeseen and anticipated cash flow requirements. Adequate reserves have a positive impact on Calleguas' bond rating and the ability to access debt markets at favorable interest rates, helping to ensure its ability to finance and construct the infrastructure necessary to repair and replace its facilities, as well as expand the system to meet future demands. This Reserve Policy establishes general guidelines for cash reserves that will help to ensure the long-term financial, organizational and operational stability of the organization.

Types of Reserve Funds

The District maintains two types of funds:

1. **Legally Restricted Reserves.** Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract.
2. **Designated Reserves.** Designated reserves are reserves that are established and set aside by the Board of Directors to be used only for a specific, designated purpose.

Legally Restricted Reserves

Debt Service Reserve. This is a restricted reserve that is governed by legal bond covenants and is to be used if the District is unable to meet the required debt service obligation. The bond covenants require that Debt Service Reserve be maintained at a level sufficient to fund the maximum annual debt service payments.

Designated Reserves

Operating Activities

Emergency Water Replacement Reserve. These reserves ensure that local water used in a prolonged shutdown of imported water supply can be replenished as quickly as possible.

This reserve is to be used to purchase water from Metropolitan Water District to replenish any water produced from the Las Posas Basin or Lake Bard during an unanticipated shutdown.

A Maximum Reserve Capacity will be established at 27,500 A.F. and is based on the following:

20,000 A.F. Las Posas well field (six months well field production @ 55 cfs*)
7,500 A.F. Maximum water available in Lake Bard
27,500 A.F. Maximum Reserve Capacity

*-Pumping capacity (55 cfs) may be revised as information becomes available from future well field testing and analysis.

The Reserve Replacement Capacity will be determined by reducing the Maximum Reserve Capacity by the cumulative amount of injected water in the Las Posas well field and the water stored in Lake Bard in excess of 2,500 A.F.

The reserve amount will be based upon current estimated pumping and treatment costs for the Maximum Reserve Capacity, and the current Metropolitan Water District Tier 1 water rate for the Reserve Replacement Capacity. The pumping and treatment costs will be adjusted annually on January 1st by the November CPI percentage for the Los Angeles area.

Operating Reserve. These reserves cover temporary cash flow deficiencies that occur as a result of timing differences between the receipt of operating revenue and expenditure requirements as well as unexpected expenditures occurring as a result of doing business. In addition, reserve funds may be used to smooth rate increases passed on to the purveyors from Metropolitan Water District. It is the goal of the District to maintain the Operating Reserve in excess of 50% of budgeted Operating Administration costs.

Unrestricted Reserves. These reserves represent a remainder balance of cash that is not yet designated for some use by the Board of Directors.

Construction Activities

Emergency Reserve. These reserves shall be used to cover unexpected or emergency repair expenditures by the District as a result of a natural disaster or other unexpected loss. Any reimbursement received by the District from grants or insurance companies as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss. As of January 1, 2012, the amount will be set at $15,000,000 and will be adjusted annually on January 1st by the November Engineering News Record Construction Cost Index for the Los Angeles area.

Capital Reserve. These reserves are to be spent directly on capital expenditures. The Capital Reserve Fund is established to fund capital projects in the District's 10 Year Capital

Improvement Program or otherwise identified by the Board as necessary to meet regulatory requirements, system reliability, and future needs of the District.

The Capital Reserve is derived from the remaining cash received from the Capital Construction Surcharge portion of the Calleguas MWD Rate after all Debt Service payments, budgeted capital expenses or contributions and Emergency Reserve Fund requirements have been met. Annual replenishment and balance is reported to the Board of Directors as part of preliminary and final budget approvals.

Summary

The Board of Directors, in consultation with the General Manager, will be responsible for managing the reserve funds. The Board of Directors must authorize the expenditure of money from all of the District's reserve funds. The Board will annually review the balance of the reserve funds and work collaboratively with the General Manager to evaluate the goals and purpose of each reserve fund, and make adjustments as may be necessary or desirable.

CHAPTER 3 – FINANCIAL

SECTION 2.3.1 BUDGET POLICIES

2.3.1.1 Open, Collaborative Process: LAFCo encourages an open, collaborative process in the development and approval of its budget, and efforts to equitably apportion or reapportion the cost of its budget. LAFCo encourages cooperation and collaborative efforts among agencies in order to reduce the costs of special projects, studies and state mandates.

2.3.1.2 Annual Work Plan: As a part of the budget development process LAFCo will annually review and adopt a work plan to fulfill the purposes and programs of state law and local policy, including requirements for service reviews, sphere of influence reviews/updates and other mandated functions. The work plan will guide the development of the budget based on a July 1 to June 30 fiscal year.

2.3.1.3 Preparation and Administration:

a. The Executive Officer or designee shall serve as budget administrator to prepare, present, transmit, review, execute and maintain the LAFCo budget consistent with state law.
b. The Executive Officer shall provide the Commission with a monthly budget report comparing revenues and expenditures to the adopted budget at the next regular meeting of the Commission following staff's receipt of the report from the Auditor-Controller.

2.3.1.4 Contingency Reserve:

a. The annual budget shall include a contingency appropriation of 10% of total operating expenses, unless the Commission deems a different amount appropriate.
b. Funds budgeted for contingency reserve shall not be used or transferred to any other expense account code without the prior approval of the Commission.

2.3.1.5 Budget Adjustments:

a. The Commission may make adjustments to its budget at any time during the fiscal year, as it deems necessary.
b. Adjustments between accounts within the same object may be approved by the Executive Officer.
c. Transfers between expenditure objects may be approved by the Executive Officer.

SECTION 2.3.2 FUND BALANCE POLICIES

The Commission's fund balance policy establishes a minimum level at which unrestricted fund balance is to be maintained. The Commission believes that sound financial management principles require that sufficient funds be retained by the Commission to provide a stable financial base at all times. To retain this stable financial base, the Commission needs to maintain an unrestricted fund balance in its General Fund sufficient to fund cash flows of the Commission and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls.

2.3.2.1 Circumstances in Which Unrestricted Fund Balance Can Be Appropriated: Unrestricted fund balance includes committed, assigned and unassigned fund balance. Committed and assigned fund balances indicate amounts set aside by the Commission for specific purposes. Committed and assigned fund balances shall be appropriated for the approved purpose but may be transferred by majority approval of the Commission.

2.3.2.2 Appropriate Level of Unassigned Fund Balance in the General Fund: The Commission will maintain an unassigned fund balance in the General Fund of approximately 60 days working capital. Excess fund balance remaining over and above the committed and assigned fund balances should be classified as "unassigned" in the General Fund. Should Unassigned Fund Balance fall below 45 days working capital it should be addressed in the next fiscal year budget.

2.3.2.3 Litigation Reserve Account:

a. It is the goal of the Commission to establish and maintain a Litigation Reserve Account with the intent of limiting the use of Litigation Account funds for unanticipated expenditures resulting from litigation against the Commission that does not occur routinely and would not be reimbursed by another party.
b. The initial amount to be maintained in this account was $100,000 in 2011. To reflect inflation, the amount was increased to $135,000 in 2023. The amount shall be modified each year to reflect changes to the consumer price index, as determined by the U.S. Bureau of Labor Statistics, unless the Commission deems a different amount appropriate.
c. Should the Litigation Reserve Account balance fall below the $100,000 targeted level, the Commission shall approve and adopt a plan to restore this balance to the target level within 24 months. If restoration of committed fund balance cannot be accomplished within such period without severe hardship to the Commission, then the Commission will establish a different time period.

2.3.2.4 Year-End Fund Balances:

a. If a portion of existing fund balance is included as a budgetary resource in the subsequent year's budget to eliminate a projected excess of expenditures over expected revenues, then that portion of fund balance should be classified as assigned. The assignment expires with the establishment of the budget.
b. An assignment of fund balance requires a majority vote of the Commission. However, the Executive Officer is authorized to assign any fund balance used to balance a future budget upon the adoption of the annual budget.

2.3.2.5 Review: In conjunction with the adoption of the final budget, the Commission's Fund Balance policies shall be reviewed annually to evaluate sufficiency of the adopted level of fund balance.

SECTION 2.3.3 FEES

2.3.3.1 Establishment and Review:

a. LAFCo shall establish a fee schedule for the costs of proceedings pursuant to state law by resolution of the Commission. LAFCo will review its fee schedule annually as a part of the annual budget process.
b. The Commission shall establish fees for any proceeding or action not set forth in the fee schedule prior to the processing of the proceeding or action consistent with state law.

2.3.3.2 Payment of Fees Required:

a. No application or any other request for Commission consideration will be accepted until payment of the entire "Total Initial Payment" pursuant to the most recent fee schedule is received.
b. For a proposal for a change of organization or reorganization, the Executive Officer shall not record the Certificate of Completion until any balance due as reflected on the final invoice is paid in full.
c. For any request for commission consideration other than a proposal for a change of organization or reorganization, and except as otherwise required by law, the Executive Officer shall not schedule the matter for Commission consideration until any balance due as reflected on the final invoice is paid in full.

2.3.3.3 Fees for Sphere of Influence Updates and Municipal Service Reviews: LAFCo shall pay all costs associated with LAFCo-initiated quinquennial sphere of influence reviews, updates and any associated municipal service reviews that are required to be prepared pursuant to state law. For any sphere of influence update that is initiated by an agency other than LAFCo, the applicant shall be responsible for payment of all associated fees and costs, including the preparation of a municipal service review, if required.

2.3.3.4 Fee Waivers: The Commission may waive fees as provided in state law.

2.3.3.5 Refunds:

a. If an application is withdrawn, The Executive Officer or designee shall calculate all fees and charges expended, including costs for processing the withdrawal request, and refund the balance of any unspent funds on deposit with LAFCo to the applicant.
b. No refunds will be made for any portion of any administrative fee charged pursuant to the fee schedule.

2.3.3.6 Reimbursement Agreements: Whenever a deposit of funds is required, the applicant shall enter into an agreement, approved as to form by LAFCo legal counsel, providing for LAFCo to be reimbursed for all costs related to the application based on the fee schedule in place at the time funds are deposited.

2.3.3.7 Legal Defense Fees: LAFCo retains the right to control its defense. The applicant may provide his or her own legal counsel in the defense of the action taken, under the supervision of LAFCo legal counsel, or, if LAFCo consents, the applicant may elect to use the services of LAFCo legal counsel in that defense. In any case, the Executive Officer may require a deposit of funds by the applicant sufficient to cover LAFCo's estimated expenses of the litigation.

2.3.3.8 State Board of Equalization Fees Required: In addition to any LAFCo fees, fees payable to the State of California for filing with the State Board of Equalization, per the most recent State Board of Equalization fee schedule, shall be filed with LAFCo prior to the Executive Officer issuing a Certificate of Completion for any applicable proposal.

SECTION 2.3.4 COMMISSIONER EXPENSE REIMBURSEMENT / STIPEND

2.3.4.1 Expense Reimbursement: Commission members and alternates shall be reimbursed for reasonable and necessary expenses based on the most recent policies and criteria contained in the County of Ventura Administrative Manual for "Reimbursement for Employees County Business Expenses." The Commission shall settle any disputes about the application or enforcement of these policies and criteria.

2.3.4.2 Stipend: Commission members and alternates shall be paid a stipend of $50 for each regular or special meeting of the Ventura LAFCo they attend up to a maximum of $100 per month. No stipend shall be paid for conferences, classes, training sessions, etc. or other functions or gatherings that are not publicly noticed meetings of the Commission. Any Commission member or alternate may decline to accept a stipend payment by notifying the Clerk of the Commission.

SECTION 2.3.5 INTERNAL PROCESSING OF FINANCIAL TRANSACTIONS

The Executive Officer or his/her designee shall review and approve all financial transactions being forwarded to the County of Ventura for further processing. This includes but is not limited to cash receipts and/or disbursements, payments requests, journal vouchers, purchase orders and/or requisition requests.

SECTION 2.3.6 AUDITS

2.3.6.1 Independent Auditor Role: For the two-year period between July 1, 2007 and June 30, 2009, LAFCo shall arrange for a single audit of its financial statements to be conducted by an independent accounting firm. All subsequent year financial statements shall be audited annually thereafter. LAFCo staff, the Commission, and any Commission committee appointed for the purpose of audit oversight are authorized to communicate directly with the independent accounting firm.

2.3.6.2 Audit Preparation: LAFCo shall be actively involved in planning for and assisting the independent accounting firm to ensure a smooth, timely, and cost-efficient audit of its financial statements. In that regard, the Executive Officer is responsible for delegating the assignments and responsibilities to staff in preparation for the audit. Assignments shall be based on the list of requested schedules and information provided by the independent accounting firm. To facilitate the timely completion of each audit and to reduce the work required subsequent to year-end, the independent auditors may perform selected audit work prior to the year-end. Staff will assist as much as possible to provide all requested information during the performance of any preliminary work.

2.3.6.3 Commission Involvement: The responsibilities of the Commission and/or any Commission committee appointed for the purpose of audit oversight include, but may not be limited to, the following:

a. Review the auditor's financial reports and management letters.
b. Ensure the integrity of LAFCo's financial statements.
c. Ensure compliance with legal and regulatory requirements.
d. Promote the independence of the independent auditor.
e. Address any serious difficulties or disputes between the auditor and management encountered during the audit.

2.3.6.4 Audit Conclusion: Unless otherwise directed by the Commission, the Executive Officer or designee shall coordinate a detailed review of the draft audited financial statements of LAFCo from the independent auditor. This review shall consist of the following procedures:

a. Carefully read the entire report for typographical errors.
b. Trace and agree each number in the financial statements and accompanying footnotes to the accounting records and/or internal financial statements of LAFCo.
c. Review each footnote for accuracy and completeness.
d. Provide copies of independent auditor reports to the County Auditor-Controller's Office for review and comment.
e. Review and respond in writing to any management letter or internal control and compliance findings and recommendations made by the independent auditor.

Any questions or errors noted as part of the review shall be communicated to the independent auditor in a timely manner and resolved to the satisfaction of the Executive Officer or a Commission committee appointed for the purpose of audit oversight. Audited financial statements, including the independent auditor's opinion thereon, shall be presented to the Commission by the independent accounting firm after the financial statements have been reviewed and approved by the County Auditor-Controller's Office and the Executive Officer or a Commission committee appointed for the purpose of audit oversight unless otherwise directed by the Commission.

2.3.6.5 Review of Independent Accounting Firm: LAFCo shall review the selection of its independent accounting firm under the following circumstances:

a. Dissatisfaction with the service of the current firm.
b. Need for a fresh perspective and/or new ideas.
c. Desire to ensure competitive pricing and a high quality of service.

SECTION 2.3.7 PAYROLL REPORTING

2.3.7.1 Internal Processing:

a. The Executive Officer shall review, modify if necessary, and approve each employee's time record prior to it being forwarded to the County of Ventura for further processing. In the Executive Officer's absence, the Office Manager shall review, modify if necessary, and approve each employee's time record.
b. No employee shall process his/her own time record. The Executive Officer's time record shall be processed by the County of Ventura Auditor-Controller Payroll Division. In the Executive Officer's absence, the Office Manager's time record shall be processed by the County of Ventura Auditor Controller Payroll Division.

Resolution 18-04

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CHANNEL ISLANDS BEACH COMMUNITY SERVICES DISTRICT ADOPTING A RESERVE POLICY

WHEREAS, THE CHANNEL ISLANDS BEACH COMMUNITY SERVICES DISTRICT (“District”) is a Special District providing water, waste water, trash and community services to the residents of Channel Islands Beach and commercial water services to Channel Islands Harbor; and

WHEREAS, the District maintains funds in unrestricted and restricted reserve accounts for capital improvements, debt service and emergency purposes; and

WHEREAS, the District requires reserve funds to be established and maintained to fund scheduled and unscheduled expenses and to provide periodic review of funding levels to ensure reserves will be adequate to meet the needs of the District; and

WHEREAS, the District considered and approved a Cost of Service Study and a five-year utility schedule in September 2016. As part of the Rate Study, the District approved the following reserve policies;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Channel Islands Beach Community Services District Reserves Policy as follows.

1) THAT the Operating Reserve will be comprised of 25% of the Operating Budget
2) THAT the Capital Reserve will be comprised of 3.5% of Asset Value
3) THAT the Rate Stabilization Reserve will be comprised of 10% of the Annual Operating Budget
4) THAT the Debt Service Reserve will be comprised of 100% of the Annual Debt Service

PASSED AND ADOPTED on this **10th day of July 2018**

AYES:

NOES:

ABTAINS:

__________________________ __________________________

Ellen Spiegel, Board President Erika Davis, Clerk of the Board

VENTURA
PORT DISTRICT
Established 1952

RESOLUTION NO. 3515

RESOLUTION OF THE BOARD OF PORT COMMISSIONERS OF VENTURA PORT DISTRICT ADOPTING A RESERVE POLICY

WHEREAS, the Ventura Port District ("District") manages and operates a commercial and recreational boat harbor in the City of San Buenaventura, for the benefit of the city residents and the public generally.

WHEREAS, the District maintains funds in unrestricted and restricted accounts for such purposes as capital improvements, debt service and emergency and disaster response.

WHEREAS, the prudent management of the District requires that reserve funds be established and maintained to fund scheduled and unscheduled expenses, and to identify the amount of funds specifically dedicated for each purpose and to provide periodic review of the reserve funding levels to ensure such levels are and will be adequate to meet the projected needs of the District.

WHEREAS, the Board of Port Commissioners has previously determined that it is in the best interest of the District to establish dedicated and restricted reserve funds for various purposes and to implement a formal policy regarding the level of funding and use of such reserve funds.

WHEREAS, the Board of Port Commissioners adopted Resolution No.3190 on June 27, 2012, establishing the Ventura Port District Reserve Policy.

WHEREAS, the Board of Port Commissioners has determined that it is in the best interest of the District to revise the District's Reserve Policy in the following manner: (i) all unexpended Unrestricted Reserve funds in excess of the minimum reserve amount will be transferred to the Capital Improvement Reserve Fund; and (ii) to allow for the balance of the Capital Improvement Reserve Fund to appreciate.

NOW THEREFORE, BE IT RESOLVED that the Board of Port Commissioners of the Ventura Port District hereby rescinds Resolution No. 3225, which was previously passed, approved and adopted by the Board on August 28, 2013, and adopts in its place the Ventura Port District Reserve Policy attached hereto as Exhibit A.

EXHIBIT A
VENTURA PORT DISTRICT RESERVE POLICY

1) The District will maintain sufficient revenues to meet its operating expenses, debt service, depreciation expenses, and prescribed reserves.

2) The District will hold cash and/or investments in reserve as authorized by the District's Investment Policy, and in accordance with State and Federal laws.

3) The District reserves should be examined and adjusted each year based on the operating surplus or deficit at the conclusion of each fiscal year, according to reserve fund prioritization.

4) The District will maintain a reserve of cash and/or investments for both unrestricted and restricted purposes as follows:

- **Unrestricted Reserve:** Unrestricted reserve funds are to be used to ensure the continued orderly operation of Ventura Harbor. Such funds are primarily to be used for operations and maintenance within the Harbor and are intended to provide a mechanism for the District to immediately undertake unanticipated operation and maintenance activities and to manage cash-flow fluctuations, including emergency repairs. A minimum reserve equal to 40% of the operating budget will be maintained to ensure service continuity. Any unrestricted reserve funds in excess of such minimum reserve amount that is not expended as of the last day of the then-current fiscal year will be moved to the Capital Improvement Reserve Fund.

  The District Accounting Manager should invest unrestricted reserve funds in liquid money market accounts such as LAIF, so that the funds are immediately available for District use.

- **Restricted Reserves:** Restricted reserve funds are to be set in the following amounts and used for the specific purposes for which the restricted reserve funds are created. At the present time, the District maintains the following restricted reserve funds:

  - **Capital Improvement Reserve Fund**: The Capital Improvement Reserve Fund is intended to establish available cash assets to fund capital expenditures of the District in accordance with the District's Capital Improvement Plan. The level of funding in this reserve fund for the next fiscal year should be established based on the projected need to pay for planned and unplanned capital improvements for such fiscal year. In establishing the level of funding based on the projected need to pay for planned and unplanned capital improvements for any given fiscal year, the District may, but shall not be obligated to, take into account unexpended reserve funds from year-to-year and accumulations thereon including, but not limited to, any unrestricted reserve funds transferred to the Capital Improvement Reserve Fund. The minimum balance maintained should be at least equal to the asset depreciation for the preceding fiscal year.

- **Dredging Reserve Fund:** The funds in the Dredging Reserve Fund are required to be maintained at a minimum level of $3,000,000 in order to comply with a judgment entered against the District in 1979. Funds in the Dredging Reserve Fund are to be used solely and only to pay the cost of dredging and related activities to maintain appropriate water depths in the channels into and within the Harbor, and specifically in the Stub Channel providing water access to Ventura Keys.

- **Fisheries Complex Reserve Fund:** Funds deposited in the Fisheries Complex Reserve Fund are intended to provide funding to upgrade and improve the District's commercial fishing pier. The District has a policy of requiring tenants involved in commercial fishing operations to contribute toward the cost of improving the commercial fishing pier when they renew their leases. All payments received from such commercial fishing tenants are deposited in the Fisheries Complex Reserve Fund and will be used to pay the cost of improving and upgrading the pier when it becomes necessary to do so.

The Accounting Manager of the District shall invest funds held in these restricted reserve funds in secure accounts such as LAIF and invested in accordance with the District's investment policy.

5) At least annually the Board should review all reserve accounts and make a determination regarding the continuing need for and purposes of the reserve funds, the appropriate levels of accumulation and the conditions precedent to utilization of the reserve funds.

6) When additional reserve funds are to be established, they should be established by Board resolution, which should include:

(a) A statement of the purpose for which the reserve is created;

(b) To the extent possible, specification of minimum and maximum parameters for the accumulation of the monies in the reserve fund; and

(c) Specification of the conditions under which reserve funds shall be expended or transferred, consistent with Board directives.

7) This Ventura Port District Reserve Policy shall become effective on the date of its adoption and District staff are hereby directed to take all actions necessary to implement this Policy and to maintain the designated reserve funds.

PASSED, APPROVED AND ADOPTED at a Regular Meeting of the Board of Port Commissioners of the Ventura Port District this 18th day of December 2024, by the following vote:

AYES: Commissioners Blumenberg, Gardina, Rainey, Stephens, Howell

NOES:

ABSTAINED:

ABSENT:

Michael Blumenberg, Chair

ATTEST:

Anthony Rainey, Secretary

VENTURA PORT DISTRICT
INCORPORATED
APR. 15, 1952
CALIFORNIA

CONEJO RECREATION AND PARK DISTRICT

FINANCIAL RESERVES POLICY

Originally Created: January 9, 2014

Last Reviewed: February 6, 2025

PURPOSE

This policy statement is intended to provide a framework and guidance for the Board of Directors in establishing, maintaining and utilizing the District's financial reserves.

BASIC POLICY AND OBJECTIVES

The Conejo Recreation and Park District reserve policy is an effort to provide clear and well-articulated reasons and guidance for the accumulation and management of the District's reserve funds. Financial reserves are intended to help the District remain financially stable and can serve as a buffer against present and future uncertainties. Financial reserves are a critical ingredient of financial planning and assist the District in achieving its short and long-term plans.

Reserve categories and balances are identified on the District's audited financial statements (Balance Sheet) under "Fund Balance." The adequacy of the target reserve balances will be reviewed annually during the annual audit and may be revised as necessary. A summary document showing the balances of each reserve as of June 30, 2024 is attached.

The following District reserve fund categories are hereby established:

Operating Reserve

Purpose: The Operating Reserve is committed for unexpected operating expenses and contingencies.

Use of Funds: The Operating Reserve is set aside for operating expense shortfalls due to unexpected expenses or revenue shortfalls. This fund may also be used for emergency cash-flow needs.

Funding: An ideal target reserve balance is between 3 - 6 months of operating expenses; approximately $6 - $12 million

Claims & Liability Reserve

Purpose: The Claims and Liability Reserve is committed for workers' compensation expenses, claims and liabilities.

Use of Funds: The Claims and Liability Reserve is for property, liability and workers' compensation claims. The District purchases excess insurance coverage for workers' compensation claims. The District obtains insurance through a joint powers authority, "California Association for Park and Recreation Indemnity" (CAPRI), and has a self-insured retention (SIR) of $100,000 for liability claims and $350,000 for workers' compensation claims.

Funding: Claims are currently handled on a pay-as-you-go basis out of the General Fund. The ideal target reserve balance is currently $2.5 million.

Equipment Replacement Reserve

Purpose: The Equipment Replacement Reserve is committed for vehicle and information technology and recreation equipment replacement.

Use of Funds: The Equipment Replacement Reserve is designed as a structured vehicle and equipment replacement program to keep necessary vehicles and equipment functional and effective. Equipment and vehicle replacements are made from this fund.

Funding: Annually, the estimated replacement cost is transferred from the General Fund to the Equipment Replacement Fund which maintains the fund at the ideal target balance The ideal target reserve balance is currently $5 million.

Vested Leave Reserve

Purpose: The Vested Leave Reserve is assigned for accrued leave (vacation/sick) payouts.

Use of Funds: The Vested Leave Fund is to be used to cover the estimated cost of the vested accrued vacation/sick leave of all District employees.

Funding: The ideal target balance is total projected liability. As of June 30, 2024 the total projected liability is $1.68 million.

Pension Stabilization Reserve

Purpose: The Pension Stabilization Reserve is committed for pension and OPEB obligations.

Use of Funds: The Pension Stabilization Reserve is set aside for funding of pension and OPEB costs and the associated unfunded accrued liabilities and may be used to supplement annual budgeted pension/OPEB expenses and for reduction in the unfunded accrued liabilities.

Funding: The ideal target balance is 85%-115% of retiree liabilities. The District has been transferring annual Salary and Benefits savings to the Pension Stabilization Reserve to reach this goal.. Knowing the turbulent history of retiree liabilities and markets; guideline recommendations for funding this reserve based on the percent of projected liabilities funded at the end of each fiscal year with Board review and direction to consider:

Below 85%: transfer annual Salary and Benefits savings and unassigned funds as determined by the annual Board review of the Reserve funds and Policy if available.
Between 85% and 100%: transfer annual Salary and Benefits savings.
Between 100% and 115%: do not transfer annual Salary and Benefits savings.
Over 115%: use reserve funds for normal cost annual contributions.
Over 130%: use reserve funds for normal const annual contributions and additional discretionary payments to CalPERS .

The District is scheduled to begin contributions to a new "fresh start" 10-year amortization schedule for CalPers contributions in fiscal year 2025/26. Subsequent CalPERS actuarial reports will affect these funding percentages in outyears and may result in changes to this funding target.

Capital Facilities and Property Acquisition Reserve

Purpose: The Capital Facilities and Property Acquisition Reserve is committed for the costs associated with adding and replacing capital facilities and acquiring new park properties for the purposes of Maintaining the District's parks-per-person goals.

Use of Funds: The Capital Facilities and Property Acquisition Reserve is set aside to provide funding associated with the planning, design, funding options, acquisition and actual construction of capital facilities such as, but not limited to, buildings, parking lots, lighting, playgrounds, walkways, and irrigation systems.

Funding: . The ideal target balance is $300.76 million
This target includes 3 components:

1. Identified, but unfunded projects in the ten-year Capital Improvements Plan (Year X)
2. Existing Park Deficiencies; the number of acres needed to achieve the District's parks per person goals based on average costs for acquisition and development of an acre.
3. Future need based on anticipated additional housing units

The total reserve target calculation and related assumptions for acquisition and development is attached.

RESERVE FUND POLICY

OVERVIEW

The Bear Valley Water District (District) considers careful fiscal planning essential to the long term, sustainable delivery of its core services, specifically the collection, treatment and disposal of waste water for all of its customers as well as the careful stewardship of the public's financial and environmental assets.

The District has determined that a key part of the District's financial preparedness rests on sound reserve policies and guidelines. This policy is intended to provide for the prudent accumulation and management of designated reserve funds to achieve the District's long term financial goals.

OBJECTIVES

Managed and allocated effectively, reserves ultimately provide stakeholders a variety of benefits. In addition to financial policies established to guarantee that the District can meet the future financial requirements of customer demand and system reliability, reserve policies are also considered essential to ensure stable rates for ratepayers in the District, well-maintained public assets, emergency preparedness, capital improvement and replacement of assets, savings to balance budgets and the proper allocation of funds for the future growth and expansion of facilities.

This Reserve Fund Policy was developed to clearly identify specific designated reserve funds and govern how they will be managed. It is the intent of this Reserve Fund Policy to clearly identify types of reserve funds as well as define the purpose, target balance, use and funding mechanism of each fund. The adequacy of the target reserve year-end balance ranges and/or annual contributions will be reviewed annually during the budgeting process and may be revised accordingly as necessary.

The Board of Directors establishes the following reserve funds with this policy:

1.0 - Sewer Operations and Maintenance (O&M) Emergency Reserve Fund

2.0 - Sewer Capital Improvement & Replacement Program (CIP) Reserve Fund

3.0 - Sewer System Capacity Fee Reserve Fund

1.0 SEWER OPERATIONS AND MAINTENANCE (O&M) EMERGENCY RESERVE FUND

1.1. Fund Type: Assigned Fund (GASB 54) - The District's Assigned Fund balance classification reflects a fund that the Board of Directors intends to be used for specific purposes but is subject to neither the restricted nor committed levels of constraint bound by legislation or formal Board action. As an Assigned Fund, this lower level of constraint provides for more flexibility by the General Manager to access and utilize this fund as emergencies arise.

1.2 Purpose: To ensure cash resources are available to fund the daily administration, operation and maintenance activities necessary to provide District services in the event of unplanned major maintenance or equipment failure.

1.3. Target Balance: A minimum of three (3) months of O&M expenses to fund the District's operational expenditures during a potential emergency.

1.4. Methodology/Rationale: The District is required to have sufficient cash flow to meet the next three months of budgeted District expenditures (Government Code Section 53646(b)(3)). In addition to holding enough cash for 3 months of operating expenses, industry standards also suggest setting aside sufficient cash in anticipation of an emergency system failure to replace the most vulnerable component of your system or one that would cause the greatest disruption of service.

1.5. Use of Funds: This fund will be used to pay for unplanned, emergency O&M expenditures determined necessary by the Board and/or the General Manager.

1.6. Funding: Annual contributions will vary depending on the current balance of the fund and current year regular and emergency expenditures. The 5-year O&M expense average is approximately $600,000 suggesting an O&M emergency fund balance of a minimum of $150,000. The Agency will strive to fully fund this Reserve every year based on excess cash flow as available.

2.0 SEWER CAPITAL IMPROVEMENT PROGRAM (CIP) RESERVE FUND

2.1. Fund Type: Committed Fund (GASB 54) - The District's Committed Fund balance classification is subject to internal constraints self-imposed by formal action of the District's Board of Directors. For committed fund balances, formal action of the Board is required to establish (and modify or rescind) a commitment of fund balance.

2.2. Purpose: Fees are collected for the future replacement of existing facilities and major equipment.

2.3. Target Balance: The target balance will comprise an amount determined by the Board of Directors which considers both the District's 5-Year Capital Improvement Program (CIP) and the current total aggregate asset value as reflected in the most current depreciation schedule. The District records depreciation using the straight-line method over the estimated useful lives of facilities and equipment. The 5-Year CIP assumes replacement of capital equipment equivalent to the depreciation schedule. At a minimum, the Board should allocate to the fund enough each fiscal year to adequately fund the 5-Year CIP.

2.4. Methodology/Rationale: The Capital Improvement Program (CIP) reserve fund is for system rehabilitation, long term equipment replacement and equipment and component purchases that meet the District's Capital Assets Policy. The fee is collected through ratepayer service fees to replace District facilities and equipment as they reach the end of their useful life and also to handle unanticipated repairs during the life-cycle. A key objective for accumulating capital reserves is to minimize external borrowing and interest expenses.

2.5. Use of Funds: The CIP Reserve Fund will be used to replace facilities and equipment as necessary to continue reliable and efficient delivery of District services. The Board of Directors will authorize use of planned capital reserves during the budget process. Capital reserves are also available for unplanned (unbudgeted) capital replacement projects.

2.6. Funding: At a minimum, the target annual funding amount of the CIP Fund should reflect the approved annual budgeted depreciation amount in conjunction with the approved 5-Year CIP Plan. However, by vote of the Board of Directors, this reserve fund balance may be fully funded either at once or incrementally to provide for capital reserves sufficient to cover the District's total depreciated fixed asset position.

3.0 SEWER SYSTEM CAPACITY CHARGE RESERVE FUND

3.1. Fund Type: Restricted Fund (GASB 54) - The District's Restricted Fund balance classification reflects a fund subject to externally imposed and legally enforceable constraints which limit the District's Board to redirecting these funds to other uses or funds. The California Water Code explicitly limits public water agencies use of capacity funds collected from new customers to expanding system capacity.

3.2. Purpose: Government Code Section 66013(b)(3) does not allow us to charge new or existing customers an arbitrary amount to fund a future, undefined capacity expansion project. On the other hand, we are permitted to charge a new customer a fee that reflects an appropriate share of the historic cost of the established capacity. The amount of this fee is periodically calculated and adjusted through an engineering report that is subject to board approval. This "capacity" fee is collected from new customers and is required by law to be reserved for future capacity expansion, even if no expansion plan is in place at that time.

3.3. Target Balance: The target balance shall be set as a function of any board approved capacity enhancement plans. In the absence of any such approved plans, no specific target shall be set, but the funds shall accrue as available. At the time the District may need to expand capacity in the system, the target balance will be set at the amount as determined by the District Engineer.

3.4. Methodology/Rationale: Capacity charges are based on the capacity of the District's wastewater system to provide service to customers. Capacity charges are determined by an engineering report that establishes the basis for the charge and how it was calculated. All applicants for new or additional sewer service to the District's Sewer System shall pay a Capacity Charge as defined by Government Code Section 66013(b)(3) and District Ordinance 71 prior to issuance of a permit by the District. Capacity Charges represent the property owner's proportional capital costs associated with existing system capacity for a new sewer connection at the time of the connection. The current capacity fee calculation reflects the recommended cost for each equivalent dwelling unit (EDU) served until such time as the District reaches its current system capacity.

3.5. Use of Funds: The funds shall be used only for system capacity expansion/enhancement projects which ensure the property owner's proportional share of capacity in the system is associated with the specific capital cost for a new sewer connection at the time of the connection.

3.6. Funding: This fee is collected with each service application from a vacant parcel with the intent to connect to the wastewater system. In addition, the per new connection value of treatment and distribution capacity will be charged to all new land development projects and deposited into this account. Interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

RANCHO CALIFORNIA WATER DISTRICT
42135 WINCHESTER ROAD
TEMECULA, CA 92590

CASH RESERVE POLICY

ADOPTED BY THE
BOARD OF DIRECTORS
ON
JUNE 13, 2024

TABLE OF CONTENTS

CASH RESERVE POLICY

I. POLICY OBJECTIVE

The purpose of Rancho California Water District's (Rancho Water/District) Cash Reserve Policy (Policy) is to ensure that the District will have adequate funding and liquidity in order to mitigate risk or uncertainty in revenue and expenses and to meet operating, debt service, capital rehabilitation, and improvement needs. The Policy is intended to be used in conjunction with the District's operating and non-operating budgets and long-range financial plan. Properly designed policies demonstrate that the Board is committed to the District's long-term financial health and include:

- establishing prudent fiscal reserve policies to ensure strong fiscal management to guide District decisions;
- providing the ability to meet the District's short-term and long-term obligations and to ensure that the District maintains a credit rating of AA or better;
- ensuring funding is available for current and future replacement of assets; and
- helping smooth rates from year-to-year while promoting long-term equity to ratepayers.

II. BACKGROUND AND INTRODUCTION

The complex nature of Rancho Water's operations and its various legal, legislative, contractual, and divisional boundary requirements dictate a multifaceted and sophisticated financial structure. The District has implemented numerous operating programs to secure water and wastewater service resources at the lowest possible cost to its valued customers, without compromising service reliability or quality of service.

To protect the District's investment in its various assets and satisfy its commitments under its numerous financial, regulatory, and contractual obligations, the District has developed and segregated several reserves. The prudent management of reserves will provide assurance that the current levels of service reliability and quality will continue.

These reserves can be broken out into two types: Operating and Non-Operating. Within each category, this Policy further establishes reserves that are intended to be funded from Revenues of the District.

A. Operating Reserves would predominately be funded from water and wastewater user rates. Investment earnings on amounts on deposit in the reserves shall remain therein, unless such earnings result in the reserves exceeding maximum levels, whereupon the District will prepare an analysis to determine the most appropriate allocation of resources.

B. Non-Operating Reserves are funded from charges reflected on water and wastewater bills, capacity fees, and Riverside County tax assessment revenue which includes, General Purpose, Ad-Valorem, and Standby assessments. These revenues are designated for debt service and the construction of new capital assets and replacement of aging utility systems. Current estimates demonstrate that future capital infrastructure projects will need to be funded with a combination of capital reserves, replacement reserves, and future-debt proceeds. Investment earnings on amounts on deposit in the reserves shall be distributed to the appropriate funds based on the annual budget.

During the adoption of the District's operating and capital budgets, a comprehensive assessment is conducted for all reserve targets and their respective prioritization and funding levels.. In accordance with sound financial management practices, the strategic determination of the optimal level and distinct delineation of reserve subcategories is imperative for the fiscal well-being of Rancho Water. This policy establishes the mandated reserve types along with their corresponding funding thresholds.

III. RESERVE DEFINITIONS

A. Operating Reserves

The Operating Reserves are comprised of three (3) reserve funds with individual target levels based on the major classifications of risk to the District's operations. Certain revenues applicable to a particular component, such as with drought penalties to the Drought Reserve, are applied directly to the applicable reserve component to assist in funding the target level more quickly than would otherwise be available from general revenues. The objective of this reserve type is to maintain a minimum equivalent to six (6) months of the annual operating budget within the combined operating reserve funds. Upon the drawing of moneys below the minimum levels, staff will recommend a course of action to meet the minimum target levels.

1. **Working Capital Reserve**

This reserve acts as the "base" reserve and is intended to provide sufficient liquidity from a cash-flow perspective to facilitate the normal dynamic of first having to pay expenses before receiving funds from customers.

a. **Funding Sources:** Operating revenues or Board-approved transfers from unrestricted non-operating funds.

b. **Target Levels:** The target level for this reserve shall maintain a minimum balance equal to 120 days of the total annual operating budget and a maximum balance of 240 days of the total annual operating budget.

c. **Events or Conditions Prompting the Use of the Fund:** This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses or decreases in revenues and unexpected increases in expenses.

d. **Replenishment:** Upon the drawing of moneys resulting in a balance at or below the target, staff will recommend a course of action to meet the target level.

2. **Drought Reserve**

This reserve helps mitigate the risk of short-term low- to moderate-drought impacts by funding unanticipated purchases of imported water, resulting from reductions in local water supplies.

a. **Funding Sources:** Drought penalties or operating revenues.

b. **Target Levels:** The Drought Reserve target is set at one (1) year's impact of estimated reduction in local supplies due to drought conditions, which is estimated by multiplying the potential 5,000-acre-foot reduction in water yield during a drought by the then current cost differential between local and treated imported water rates.

c. **Events or Conditions Prompting the Use of the Fund:** Used to supplement revenues during drought years or higher-than-anticipated imported water costs.

d. **Replenishment:** Upon the drawing of moneys resulting in a balance at or below the target, staff will recommend a course of action to meet the target level.

3. **Rate Stabilization Reserve**

The District's Rate Stabilization Reserve provides broad protection against unexpected costs or loss of revenues and acts as the primary reserve, when considering mitigating rate increases.

a. **Funding Sources:** Operating revenues.
b. **Target Level:** The Rate Stabilization Reserve shall have a minimum level 60 days of annual budgeted operating costs. This reserve may increase in order to plan for anticipated increases in operating costs.
c. **Events or Conditions Prompting the Use of the Fund:** Used to cover funding for unanticipated major expenses during a year such as unbudgeted major leak repairs, as well as acts to mitigate rate increases from known cost increases for future years, such as with imported water or energy rates.
d. **Replenishment:** Upon the drawing of moneys below the target level, staff will recommend a course of action within the budget and long-range financial planning process to meet the target level.

B. Non-Operating Reserves

1. Debt Service Reserve

The Debt Service Reserve is used for the funding debt service requirements.

a. **Funding Source:** Non-operating revenue and operating revenue.
b. **Target Level:** Five-year average of annual debt service, or any additional debt covenant required levels.
c. **Events or Conditions Prompting the Use of the Fund:** This reserve acts as the "base" reserve and is to remain intact while the District has outstanding debt. If reserve levels were to drop below this reserve target or projected to drop below the target, staff will recommend funds to be appropriated from other reserve funds or available revenues and will present a plan to the Board for replenishment of this reserve.

2. Capital Project Reserve

The Capital Project Reserve is used for the funding of new capital assets or for the funding of the replacement of capital assets when they reach the end of their useful lives. Replacement of capital assets shall include repair, rehabilitation, improvements, and/or extensions of existing capital assets.

a. **Funding Source:** Non-operating revenue and operating revenue.

b. **Target Level:** The District may set aside funds for certain identified capital projects. The District will strive to set aside moneys annually to achieve a balance equal to 100 percent of the average five-year forecasted Pay-Go capital project amounts. Alternatively, the District may accumulate moneys for the cost of an identified capital project until such time as design, engineering, feasibility, or construction commences on the identified capital project.

c. **Events or Conditions Prompting the Use of the Fund:** Staff will recommend new assets to be constructed during the annual Capital Improvement Budget preparation. As projects are approved, funds will be appropriated from other reserve funds or available revenues.

3. Risk Management

The Risk Management Reserve is comprised of moneys to mitigate the risk of costs on claims that would be self-insured. It is designated as the lowest priority to receive operating revenues due to the nature of its infrequent use and ability to be funded by other reserves or non-operating funds.

a. **Funding Source:** Primarily from non-operating revenues.

b. **Target Level:** Historical experience demonstrates that it is prudent for the District to maintain reserves at five (5) times the self-insurance amount. This would equate to a $500,000 reserve for liability and $125,000 for property for a total of $625,000 for each water division and the Wastewater Division.

c. **Events or Conditions Prompting the Use of the Fund:** Used to fund insurance claims as they arise.

d. **Replenishment:** Upon the drawing of moneys, staff will recommend a course of action to meet the target level within two (2) years of the date of such draw.

IV. ADDITIONAL USE OF RESERVES

If reserve funds have reached their maximum target levels, the Board may instruct staff to utilize additional reserves in the following ways.

A. Advance fund any of the District's short-term or long-term liabilities, including but not limited to outstanding debt, leases obligations, State Revolving Fund (SRF) loans, interfund loans, cash funding capital projects, pension liabilities, and Other Post-Employment Benefit liabilities. Refer to the District's Section 115 Trust funding policy.

B. Staff will prepare an analysis with the advice of its Municipal Advisor to determine which of the above liabilities provides the maximum amount of savings to the District, due to early prepayment. This analysis will consider any other factors, such as prepayment penalties, call provisions, restricted debt service reserve funds, and the current interest rate environment.

C. Staff will present this analysis to the Finance and Audit Committee and the Board for review and approval of the recommended option(s).

D. In the event the District's Master Plan Documents and Long-Range Financial Plan identify large future spending plans, reserves can be transferred to fund other special purpose reserves for special projects or purchases and future capital commitments and the Boards discretion.

V. RESERVE TABLE SUMMARY

Reserve Fund	Restriction	Minimum	Target	Maximum
Working Capital Reserve(1)	Restricted to the divisional operations of which it was earned	NA	120 days of total annual operating budget	240 days of total annual operating budget
Drought Reserve	Restricted to the divisional operations of which it was earned	NA	5,000 AF multiplied by difference between local and treated imported water rates	NA

Reserve Fund	Restriction	Minimum	Target	Maximum
Rate Stabilization Reserve	Restricted to the divisional operations of which it was earned	NA	Two-month-budgeted operating costs	NA
Debt Service Reserve[(1)]		Five-year average of annual debt service, and adherence to debt covenants	NA	NA
Capital Replacement Reserve		NA	100 percent of a five-year average of forecasted Pay-Go Capital projects for each division	NA
Risk Management Reserve		NA	$500,000 for liability, $250,000 for property (split by water division), and one (1) percent of historical utility plant costs at end of previous fiscal year.	NA

[(1)]Base Reserves - District Minimum

VI. DISTRICT FUND SUMMARY

Account	Reserve	Restriction
General Account Fund	All Operating Reserves	Restricted to the divisional operations of which it was earned
Municipal & Industrial Tier 4, Agriculture Tier 3, and drought penalties	All Operating Reserves and Capital Replacement Reserves	Restricted to conservation and water sustainability projects or programs
Drought Penalties	First priority to Drought Reserve then all other Operating Reserves	Restricted to the divisional operations of which it was earned
Debt Service/Capital Improvement Fund	Debt Service, Capital Replacement, and Risk Management Reserves	General Purpose one (1) percent assessment revenue restricted to divisional operations of which it was earned. Ad Valorem and Standby assessment revenue is restricted to debt service and capital projects
Replacement Fund	Capital Replacement Reserves	Restricted to capital replacement projects
Connection Fee Fund	Capital Replacement Reserves	Restricted to debt service or capital projects
Bond Reserve Fund	Bond Trust Reserves	Restricted to bond-issued construction projects or reserves, as determined by bond covenants
Section 115 Pension Trust	Pension Trust Reserves	Restricted to District pension costs, as defined by Section 115 Pension Trust Policy

YUBA COUNTY WATER AGENCY

Board - Reserves Policy

Adopted: December 22, 2016
Last revised: November 21, 2023

1.0 Purpose of this Policy

This policy confirms and establishes the Yuba County Water Agency reserve funds to accomplish prudent financial planning consistent with applicable laws, ordinances, bond covenants, other contracts, and Yuba Water objectives. The policy describes and provides for the necessary funds and cash flow for normal and ordinary operations, financial planning for long-term projects and goals, and economic downturns and emergencies. Yuba Water will keep and maintain the reserve fund in accordance with the terms of this policy.

The primary purposes of this policy are: to establish and maintain prudent reserve levels that are specific to the needs and risks of the Yuba Water; to describe the designations within the reserve fund and each designation's purpose and target balance; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and future projects. Yuba Water's financial reserve fund comprises various designations established for specific purposes and risk reduction. Collectively, these fund designations enable the Agency to operate in a prudent manner, while allowing for transparency of reserve fund balances.

1.1 Background

Yuba County Water Agency, created in 1959, operates the Yuba River Development Project (YRDP). The Agency Act authorizes Yuba Water to reduce flood risk, provide water supply reliability, ensure regulatory compliance, and generate hydroelectricity for the benefit of the people of Yuba County. As of 2020, Yuba Water also became authorized under the Groundwater Sustainability Management Act (SGMA) to manage the Groundwater Sustainability Plan for the groundwater basins in Yuba County and make related expenditures. Yuba Water provides recreation at New Bullards Bar Reservoir and significantly invests in related habitat enhancements and environmental protections.

Power sales and water sales are the primary revenue sources for Yuba Water. The small portion of property taxes allocated to Yuba Water (about $700,000 annually) reverts directly back to the County of Yuba, by resolution of both governing boards. The revenue from power and water sales not only funds the ongoing operation of the YRDP and provides the means to meet all other missions, but also serves as the lifeblood for the programs, grants and community investments that are critical to the Agency's mission and vision of a thriving and prosperous Yuba County.

Yuba Water plays a unique role in flood risk reduction for Yuba County. Yuba Water is required through the U.S. Army Corps of Engineers to maintain a seasonal flood pool in New Bullards Bar Reservoir and minimize peak flood flows. This is a critical function because Yuba Water facilities are the only facilities controlling flood flows on the Yuba River, which has been subject to devastating historical flooding. In addition, Yuba Water is presently the best positioned entity financially capable of significant local cost share funding in partnership with local, state and federal flood entities to help plan and fund flood risk reduction efforts. Yuba Water is also the sole source of grant funding for flood risk reduction projects where there is no other funding source.

Yuba Water is the supplier of irrigation water to eight member irrigation districts/companies. Yuba Water protects the groundwater basins as the primary SGMA entity for the county and manages the Yuba County Integrated Regional Water Management Plan (IRWMP) for all constituent entities within the county, providing a primary source of local capital funds for IRWMP projects within an economically challenged county. Yuba Water has been and will continue to be the primary entity to ensure a reliable water supply for Yuba County.

Water transfer revenues were the main source of revenue for flood risk reduction and water supply projects for Yuba Water until 2016, when its 50-year Power Purchase Agreement expired. Now Yuba Water has power sales revenues to fund project operations, maintenance and required capital investment, regulatory requirements, and other essential mission areas.

While annual revenues are highly variable due to the uncertainty of rain and snow and the variability in power prices, over time the revenues are expected to be sufficient to cover regular operating expenses. A secure funding stream and adequate reserves are required to: (1) safely operate, maintain and improve safety and function of a 50-year old high hazard dam, power generation infrastructure, and related facilities; (2) ensure that Yuba Water maintains sufficient funding to cover required regulatory expenses, critical extraordinary expenses, and major construction, repair, rehabilitation, and improvement projects; and (3) respond to and address exigent and emergency events and circumstances during conditions such as extended droughts, natural disasters or plant and facility failure, which could substantially reduce revenues and unexpectedly require significant financial resources to fully restore generation capability. For example, as a result of the 2017 flood event, Yuba Water sustained more than $11 million in direct damage, and assisted in funding in local share to enable local public agencies within the county to rebuild from the damage.

With flood protection and water supply reliability as legislated responsibilities, Yuba Water is well positioned to take a leading role in climate resilience planning and actions in the County. Among other investments, Yuba Water plans to construct an Atmospheric River Control spillway with an estimated cost of $240 million to reduce flood risk to downstream people and property due to large atmospheric river events. As defined in the Community Grant Program and Policy, Yuba Water also continues to invest significant resources in Yuba River ecosystem improvements, watershed protection and catastrophic wildfire reduction to protect water quality and supply, the environment, and the people and resources of the county.

After securing adequate reserves established to ensure long-term financial stability and the ability to fund major projects within its authorizations, Yuba Water can turn to another critical role it plays in the County: proactively engaging in supporting the development of a robust, diverse Yuba County economy and improving the overall well-being of residents. Yuba Water plans to provide this support through investments in water and wastewater infrastructure, science education in the schools and community relating to the Agency mission and history, and related support of community-based organizations and local public agencies. By providing this support, Yuba Water is playing a leading role in organizing and funding measures that result in socioeconomic improvements within the County. Establishing adequate reserves is necessary to protect the Agency's ability to act as a catalyst for flood risk reduction, water supply, and the resulting economic development within Yuba County because of the Agency's uniquely isolated position as a price taker in the market, coupled with reliance on hydrology. These attributes were identified as risks important to mitigate to ensure Agency's long-term prosperity through work with a third party global credit rating agency.

2.0 Fund Classification Types

Yuba Water maintains two separate reserve funds, for Power Systems and for the General Fund, each with four designations that collectively comprise the Agency's reserve fund balance. Reserve funds will be established with the following designations: **Power Systems:** Operating; Emergency; Energy Sales Risk; and Non-Routine & Capital Projects; **General Fund:** Operating; Emergency; Levee Bond Payment; and Non-Routine & Capital Projects.

This chart shows the reserve funds and designations. Further description for each category given below.

Power Systems Reserve Fund	General Fund Reserve Fund
Operating: to respond to potentially large variations in annual revenue. Funding priority: 1	Operating: to respond to potentially large variations in annual revenue. Funding priority: 2
Emergency: to recover and restore operational capability in the event of an unforeseen catastrophic event. Funding priority: 3	Emergency: to recover and restore operational capability in the event of an unforeseen catastrophic event. Funding priority: 4
Energy Sales Risk: set aside to cover contractual financial commitments related to sale of energy. Funding priority: 5	Levee Bond Payment: set aside to meet certain contractual financial commitments. Funding priority: 6
Non-routine & Capital: sets aside funds for the design, construction, repair, rehabilitation, and improvement of Yuba Water facilities. Funding priority: 7	Non-routine & Capital: sets aside funds for the design, construction, repair, rehabilitation, and improvement of Yuba Water facilities. Funding priority: 8

2.1 Operating Reserve

The Operating Reserve designation provides readily available cash to continue operating Yuba Water under conditions of significantly reduced revenue due to variations in hydrology, energy production, energy prices, and/or prolonged minor outages or unanticipated variations in expenses. The Operating Reserve target amount is set at two years of total Agency operating expenses, as approved by the Board. Establishing appropriate Operating Reserve levels and designating contributions to the Operating Reserve from current revenue will be included in the annual budget process. The Operating Reserve designation will be used for the purposes noted above, based on determination of need, with the prior approval of the Agency's Board of Directors by simple majority vote.

2.2 Emergency Reserve

Yuba Water targets to maintain an emergency reserve designation of $40.0 million in Power Systems and $30.0M in General Fund to recover and restore operational capability in the event of an unforeseen, catastrophic event. In Power Systems, this target assumes a construction project burn rate of $3.33 million per month for one year, and in General Fund assumes a construction project burn rate of $2.5 million per month for one year to allow time for external funding to be secured without work delay. The more typical significant failures of large hydroelectric generators include items such as generator winding failures and generator breaker failures. This category of failure can generally be addressed for $5 million or less. However, experience from the 2017 regional flood event shows a higher level is required for unexpected emergencies, particularly given the Agency's inability to quickly raise cash through rate setting like other public utilities. Similar local agencies have experienced emergencies related to spillway and/or plant equipment totaling $1 billion. Though the project received significant offsetting funding from FEMA, the early stages of the projects needed to have adequate cash flow while waiting for the public assistance program to process the claim. In other Yuba Water funded areas, levee failure or repair could pose an immediate need and would quality for Emergency Reserve coverage. In addition, wildfire or other natural disaster could threaten water supply and require emergency funding. All of the Agency assets are located within one small geographical area and could be potentially impacted simultaneously by an emergency event. The Emergency Reserve designation also provides funds for potential cash flow funding for county partners awaiting external funding for repairs, such as FEMA Public Assistance. Establishing appropriate Emergency Reserve levels and designating contributions to the Emergency Reserve from current revenue will be included in the annual budget process. The Emergency Reserve designation may be used for the purposes noted above, based on determination of need, with the prior approval of the Agency's Board of Directors by simple majority vote.

2.3 Energy Sales Risk Reserve

The Energy Sales Risk Reserve designation provides funding to cover contractual financial commitments related to sale of energy products in the event Power Systems generation is not available to meet the obligation due to an unanticipated outage. Some, but not all, energy sales agreements require replacement of the underlying energy product, such energy or availability, acting as a financial penalty for nonperformance. In this event, those agreements will require us to procure replacement energy products in the open market to satisfy our obligation which could result in a net loss if the price in the open market is higher than we initially sold. This designation will mitigate the negative impacts on liquidity. The use of the funds in the Energy Sales Risk designation could likely be used in conjunction with the Emergency Reserve if a larger failure is the cause of the Agency's nonperformance on a energy sales agreement, where a large repair project is required to reestablish normal Agency operations and restart meeting obligations within our energy sales agreements. Establishing appropriate Energy Sales Risk Reserve levels and designating contributions to the Energy Sales Risk Reserve from current revenue will be included in the annual budget process. The Energy Sales Risk Reserve designation will be used for the purposes noted above, based on determination of need with the prior approval of the Agency's Board of Directors by simple majority vote.

2.4 Levee Bond Payment Reserve

The Levee Bond Payment Reserve designation provides funding to cover two years of Yuba Water's obligation to pay 100% of the payments on the Yuba Levee Financing Authority bonds, originally issued in 2008 and refinanced in 2016-17. Working in collaboration with local, state and federal interests, Yuba Water helped finance the local cost-share of the new, six-mile-long setback levee along the Feather River and other significant levee improvements. Completed in 2010 at an approximate cost of $160 million, the award-winning Feather River Setback Levee is one of the major projects to reduce flood risk in Yuba County and, specifically, for the communities of Arboga, Linda, Olivehurst and Plumas Lake.

Yuba Water signed an agreement with the County of Yuba to cover both agencies' shares of the bond debt service payments at least through 2025, and this practice is expected to continue through the life of the bonds (2038) unless significant financial issues threaten Yuba Water. Bond Payment Reserve target amount is set at a minimum of one year of the anticipated payment to cover the obligation during a budget shortfall during a prolonged drought or any other cause of revenue shortfall. Establishing appropriate Levee Bond Payment Reserve levels and designating contributions to the Levee Bond Payment Reserve from current revenue will be included in the annual budget process. The Levee Bond Payment Reserve designation will be used for the purposes noted above, based on determination of need with the prior approval of the Agency's Board of Directors by simple majority vote.

2.5 Non-Routine & Capital Projects Reserve

The Non-Routine & Capital Reserve designation provides funding for capital projects when needed for planning, design, environmental work and permitting, land and rights-of-way acquisition, construction, and other capital improvement costs. As part of the annual budget process, the routine or smaller capital projects will be funded from current revenue, if possible. A ten-year projection is being developed and maintained to determine the appropriate level for funding of this designation. The total in the Non-Routine & Capital Reserves designation will be determined at least annually by the Board of Directors supported by the Finance Director's recommendation based on the output from the ten-year projection. Contributions to the Non-Routine & Capital Reserve designation from current revenue will be included in the annual budget process. Funds may be drawn from the Non-Routine & Capital Reserve account with approval of the Yuba Water Board of Directors.

Non-Routine & Capital Projects fall into two categories. The first category includes major non-routine maintenance projects and capital improvement projects for Yuba Water-owned assets, including but not limited to New Bullards Bar Dam and Reservoir, Colgate Power Plant, Narrows 1 and 2 Power Plants, Yuba Water-owned canals and fish screen. Typically, Yuba Water is responsible for the planning, funding, construction and maintenance of these projects. The ten-year Capital Improvement Plan (a list of planned projects) has been developed and projects are submitted with the annual budget to the Board for approval in June and December. Planned projects are cited under Power Systems, for project related to power generation reliability and longevity, and the General Fund which includes water infrastructure projects and community enhancement projects, including the various investments in the form of local share to leverage State and Federal grant funding into the County.

This reserve fund covers the cost of the Yuba Water-developed multi-year Capital Improvement Plan for power systems and general fund projects to upgrade facilities that are 50 years old, and to build new, needed facilities. This CIP includes major upgrades to current operations, such as the Narrows 2 life extension and modernization, Narrows 1 availability and longevity upgrades, warehouse and administration building construction, and south fish screen.

The second category of Non-Routine & Capital Projects includes projects that accomplish Yuba Water's mission, but may be owned and managed by another public entity. The Yuba Water Board has approved full or partial grant or loan funding of the projects. A listing of approved projects is included in the annual budget. Most of the potential future projects that may require funding or partial funding by the Agency are included in the Integrated Regional Water Management Plan (IRWMP) and submit entries into our Community Impact Grant Program to allow for our investment to act as local share contribution leveraging other external funding sources.

Yuba Water has also submitted its application to secure its new Federal Energy Regulatory Commission (FERC) license to operate the Yuba River Development Project. The FERC Final Environmental Impact Statement provides terms and conditions that are expected to be included in the new license, which are estimated to cost $65 million to implement. During the first five years of the new license, Yuba Water has identified approximately $44.4 million in additional cost improvements to recreation, flood, and water infrastructure improvements. It is expected that the new license will obligate Yuba Water to undertake these capital improvement projects. While it is impossible to predict when the new FERC license will be issued, the earliest estimate is three years and a more likely timeframe is up to ten years.

The Non-Routine & Capital Improvement projects for Power Systems and the General fund total $778 million over the next ten years and this reserves designation will act as a sinking fund to prepare for those future funding obligations. The Yuba Water Board of Directors will set the target balance for Non-Routine & Capital Improvement designation annually.

The current reserve fund designation targets, balances, and funding plans and needs are set forth on the attached Appendix A. The Agency periodically will update this appendix to reflect changing conditions, plans, and needs.

3.0 Funding

Annually, the Finance Director will present a report of reserve designation activity to the Yuba Water Board of Directors in December of each year. The report will include a summary of the use of reserves in the prior year and will recommend annual and full funding levels. The Board, through the review and acceptance of the annual financial audit, will authorize reserve designation funding allocations. Once designated in a reserves fund, the funds may only be used upon approval of the Board of Directors.

As of June 30, 2022, the Operating Reserve, Emergency Reserve, and Levee Bond Payment Reserve, and Energy Sales Risk Reserve are funded to the target balance for both funds. It is the Board of Director's intention that reserves in the Non-Routine & Capital Projects Reserve designation, which total $124.9 million in Power System and $223.9M in General, be funded at levels set by the Board annually, guided by the priorities outlined below.

Each of the reserve designations will have identified full funding targets. When the resources are limited, the priority for funding reserves or restoring reserves to established levels after use will be as follows:

(1) First Priority: Operating Reserve - Power Systems then General Fund. It is prudent to aggressively contribute to Operating Reserves until the designation reaches its established target to ensure continuity of operation during periods of distress. After the use of Operating Reserves, this reserve will be restored to the target level prior to any distribution to other reserve fund designations.

(2) Second Priority: Emergency Reserve - Power Systems then General Fund. The Emergency Reserve will be funded to the adopted annual budget funding level each year to ensure an adequate response to emergencies and to provide for continuity of operation. After any use of Emergency Reserve, this designation shall be restored to the target level prior to any distribution to the third or fourth priority designations.

(3) Third Priority: Energy Sales Risk Reserve. The Energy Sales Risk Reserve will be funded to mitigate negative impacts to cash flow in the event a large, unanticipated event causes power generation to fail to perform as agreed within various power sales agreements, such as those agreement for Resource Adequacy, which would require the Agency to procure replacement energy products in the open market.

(4) Fourth Priority: Levee Bond Payment Reserve. The Levee Bond Payment Reserve will be funded at its established target to ensure continuity of payments on the obligation. After any use of Levee Bond Payment Reserve, this designation shall be restored to the target level prior to any distribution to the fourth priority designation.

(5) Fifth Priority: Non-Routine & Capital Projects Reserve - Power System then General Fund. The Non-Routine & Capital Projects Reserve will be funded to target amounts

each year before funding new projects or projects not identified in the Yuba Water Strategic Plan or Capital Improvement Plan.

4.0 Authority

The General Manager is responsible for the appropriate accounting and regular reporting of Yuba Water's reserve fund and fund designation balances. Board oversight will be accomplished through regular reporting and review of this Policy.

5.0 Procedure

Yuba Water Staff will develop an annual report to reflect each fiscal year's impact on the reserve balances which will be presented to the Administration, Budget, and Personnel (ABP) Committee near the end of the annual audit process. Any adjustments to funding targets will be made as a result of the annual report, then incorporated into the release of the audited financial statements. Typical adjustments would include refreshing Capital Improvement Plan inputs to derive the Non-Routine & Capital Project designation target, or, refreshing the annual operating expense data to adjust the Operating designation target.

Edits to the definitions and/or methods for developing reserve designations and targets shall require a 5/7th vote of the Board of Directors. In the event funds are needed to be withdrawn from a reserve designation, a simple majority from the Board of Directors shall be required, including withdrawals from the Non-Routine & Capital Improvement designation during the normal budgeting process.

Yuba Water staff anticipates the annual reserves report to be presented to the ABP Committee in early November each year.

6.0 Policy Review

The Board Secretary will ensure that this Policy is reviewed at least annually.

Version History

Date	Version#	Description
December 22, 2016	001	Adopted
October 16, 2018	002	Reviewed, no revisions recommended
June 16, 2020	003	Revised
November 21, 2023	004	Revised

APPENDIX A

As of June 30, 2022

Overall target for Reserves: $532.1 million

Reserve Fund Designations

Power Systems	Target	Funded	%
Operating	$37.1 million	$37.1 million	100%
Emergency	$40.0 million	$40.0 million	100%
Energy Sales Risk	$24.0 million	$24.0 million	100%
Non-Routine & Capital Projects	$124.9 million	$45.7 million	37%
Total	**$226.0 million**	**$146.8 million**	**65%**

General Fund	Target	Funded	%
Operating	$41.0 million	$41.0 million	100%
Emergency	$30.0 million	$30.0 million	100%
Bond Payment	$11.2 million	$11.2 million	100%
Non-Routine & Capital Projects	$223.9 million	$0.00	0%
Total	**$306.1 million**	**$82.2 million**	**27%**

Operating Reserve: The Operating Reserve designation established target is $37.1 million for Power Systems and $41.0 million in General Fund to provide cash to operate Yuba Water under the conditions of significantly reduced revenue. As outlined in the Reserve Policy, two times the average operating expenses is used to determine the reserve target as an estimate to withstand two years of total Yuba Water operating expenses, not including projected non-routine & capital projects or bond payments.

Emergency Reserve: Yuba Water targets to maintain an emergency reserve designation of $40.0 million in Power Systems and $30.0M in General Fund to recover and restore operational capability in the event of an unforeseen, catastrophic event. In Power Systems, this target assumes a construction project burn rate of $3.33 million per month for one year, and in General Fund assumes a construction project burn rate of $2.5 million per month for one year to allow time for external funding to be secured without work delay. The more typical significant failures of large hydroelectric generators include items such as generator winding failures and generator breaker failures. This category of failure can generally be addressed for $5 million or less. However, experience from the 2017 regional flood event shows a higher level is required for unexpected emergencies, particularly given the Agency's inability to quickly raise cash through rate setting like other public utilities. In other Yuba Water funded areas, levee failure or repair could pose an immediate need and would quality for Emergency Reserve coverage. In addition, wildfire or other natural disaster could threaten water supply and require emergency funding. All of the Agency assets are located within one small geographical area and could be potentially impacted simultaneously by an emergency event. The Emergency Reserve designation also provides funds for potential cash flow funding for county partners awaiting external funding for repairs, such as FEMA Public Assistance.

Levee Bond Payment Reserve: The total Levee Bond Payment is approximately $5.6 million annually, thus the Reserve designation is $5.6 million times two for additional coverage and security.

Non-Routine & Capital Improvement Projects Reserve: While the identified Non-Routine and Capital Project needs exceed $778 million for Yuba Water-owned projects, the Board has established the targeted funding in this designation at $124.9 million in Power Systems and $223.9 million in General Fund as a reasonable target which will adapt annually to changes in the developing ten year capital improvement plan. Some years have more planned non-routine and capital project activity than others, and revenue shortfalls are unpredictable, this sinking fund approach is the most prudent way of allowing the Agency to maintain scheduled projects which often have long lead times and significant implications for delays.

The funding targets in each designation, definitions of the designation, potential withdrawals, and anticipated opportunity to contribute to designations will be reviewed annually during the Agency normal financial audit and Board directions on funding will be captured in Note 1 of the audited financials.

POLICIES, RULES AND REGULATIONS	
Title: **RESERVE FUND POLICY**	
Policy No.:16.0	Section Nos.: 16.0 – 16.4
Approval Date: November 2018	Effective Date: November 2018
Approved By: Board of Directors	

16.0 RESERVE FUND POLICY

16.1 INTRODUCTION

This policy has been developed to maintain prudent management of regional and retail water systems, which requires that reserve funds be established and maintained to fund scheduled and unscheduled expenses including operation and maintenance, debt service, emergencies, capital improvement, repair and replacement, and for the stabilization of water rates. This policy has been revised to re-state and conform the various legacy policies of the four divisions of the Santa Clarita Valley Water Agency (SCV Water, or Agency): Regional (formerly wholesale), Newhall Water Division (NWD), Santa Clarita Water Division (SCWD) and Valencia Water Division (VWD). Regional and retail reserves included in this policy are funded by revenues that exceed budget and reductions in budgeted expenditures over a fiscal year. Existing water rates do not include a charge or amount that contributes directly to building reserves. Any change in the existing rate structure to directly fund reserves through rates shall require Board of Director approval.

This policy describes the prudent reserve fund needs of the regional and retail systems, identifies the sources of funding for such reserves, and recommended target amounts for reserve funds. Reserves are highly regarded by credit rating agencies, credit providers and investors. Although there are numerous methods to establish reserve funding levels, the Agency tends to lean on the metrics utilized by the credit rating agencies, which provide guidance on liquidity and provides peer review through the assignment of credit ratings for bond issues.

16.2 STATEMENT OF PURPOSE

The purpose of SCV Water's Reserve Fund Policy for the regional and retail water systems is to ensure the Agency's financial stability, and to have sufficient funding available to meet its operating, capital and debt service cost obligations. This plan establishes the level of reserves necessary for maintaining the Agency's credit-worthiness and ratings and for adequately providing for:

- Cash flow requirements and working capital.
- Economic uncertainties and other financial hardships, including performance of the regional economy and water supply reliability.
- Infrastructure replacements.
- Emergency repairs.
- Local disasters, natural disasters or catastrophic events.
- Loss of significant revenue sources due to variations in water sales resulting from variable weather conditions or conservation.
- Unfunded mandates including costly regulatory requirements.

16.3 TYPES OF RESERVES

The establishment of reserve funds is in the best interest of SCV Water. Traditional reserve policy categories are typically classified as follows:

- Capital Improvement and Replacement Funds
- Emergency, or Contingency Reserves
- Capital Reserves
- Operating Reserves
- Revenue Rate Stabilization Reserve
- Water Supply Reliability Reserve

Reserve funds are established utilizing the following criteria:

- Distinguish between legally restricted and unrestricted amounts.
- Contain a defined and distinct purpose.
- Contain a target level or a range of target levels.
- Identify events or conditions that prompt the use of the reserves.
- Specify periodic review dates, usually annually as part of the budget process, for balances and target levels.
- Balances should be maintained in amounts sufficient to meet minimum reserve targets in cash and/or cash equivalents.

16.3.1 Capital Improvement and Replacement Funds

These funds are established as reserves for the Agency's capital program, inclusive of pay-go and debt-funded projects. Funds from this reserve are intended to fund capital and asset replacement costs, plus any contingency amounts in the event other sources of projected capital funding becomes insufficient to complete capital projects. The Agency seeks to set aside specific amounts in each of the Capital Funds of the Regional and the Retail Divisions', to annually meet respective budgeted capital programs.

Recommended Target Levels – Most water agencies are capital intensive and funding is typically needed annually in significant amounts. In determining how much the Agency should set aside in reserves for capital projects, it must first determine how it plans to finance its capital projects in the future. In other words, the Agency must determine its capital structure: the mix of debt, reserves, and pay-as-you-go financing that it will use to pay for capital projects in the future. The Regional Division is expected to finance its capital needs through a combination of pay-go funding and debt transactions. The Retail Divisions are expected to use primarily a pay-go funding approach. This Policy recommends that the Agency and Retail Divisions maintain their pay-go Capital Funds at a minimum target level equal to the budgeted capital projects for the ensuing fiscal year.

POLICIES, RULES AND REGULATIONS	
Title: **RESERVE FUND POLICY**	
Policy No.:16.0	Section Nos.: 16.0 – 16.4
Approval Date: November 2018	Effective Date: November 2018
Approved By: Board of Directors	

16.3.2 Emergency Reserves

This reserve is established to provide additional liquidity in the event of a natural disaster, financial crisis, economic uncertainties and financial hardships, loss of significant revenue sources, local disasters or capital obligations, cash flow requirements, unfunded mandates including costly regulatory requirements and other such needs. These amounts should supplement monies received from insurance policies and by state and federal programs.

Recommended Target Levels – FEMA guidelines suggest an amount equal to 1 - 2% of the Agency's total net plant and equipment.

Regional Division - The Regional Division has a higher risk to natural disaster, economic downturns and water supply disruptions and therefore it is recommended that the Emergency Reserve equal to one year of operating expenses.

Retail Divisions – It is recommended that the Emergency Reserve target level for the Retail Divisions be equal to 2% of the Retail Divisions capital assets, net of depreciation.

16.3.3 Capital Reserves

Additionally, the Agency seeks to establish, fund and maintain a Capital Reserve to fund unanticipated capital expenditures, or additional repair and replacement projects.

Recommended Target Levels – It is recommended that the Agency maintain separate Capital Reserves for each Regional and Retail Division at a level equal to their respective rolling average of its three-year depreciation amounts. This is an indicator of the value of depreciable capital assets that are aging and will be in need of replacement or repair.

16.3.4 Operating Reserves

These funds are maintained to safeguard the financial viability and stability of the Agency and are funded from division specific revenues. The Agency has reserve funds to safeguard against unexpected events such as drought and major catastrophic events. Operating Reserves are typically established based on percentage of operating expenses and can range from 20% to 50% of annually budgeted operating expenses, exclusive of interest expense.

Recommended Target Levels – Actual funding targets for the Operating Reserve depends on numerous variables, including but not limited to the timing of revenues receipts; the timing of expenses; the variability of water supply and demand; etc.

Regional Division - It is recommended that the Regional Division maintain a minimum target amount equal to 25% of their respective budgeted operating and maintenance expenses and one year of aggregate debt service less restricted debt service reserve amounts. The source of funding should be the available monies remaining after the payment of debt service representing a combination of one percent property tax revenues and Facility Capacity Fees in the proportions those funds pay for debt service.

Retail Divisions - It is recommended that the Retail Division's maintain a minimum target amount equal to 25% of their respective budgeted operating and maintenance expenses, plus one-half year of aggregate debt service less restricted debt service reserve amounts.

16.3.5 Revenue Rate Stabilization Reserve

These funds are maintained to provide the Agency with the ability and flexibility to avoid sharp increases in customers' rates or to smooth out rate increases over an extended time frame. Revenue Rate Stabilization Reserves can be targeted as percentage of revenues, ranging from 10% to 30% of annually budgeted operating revenues.

Recommended Target Levels – Funding targets for the Revenue Rate Stabilization Reserve depends on numerous variables, including but not limited to the timing and volatility of revenues; the variability of water supply and demand; etc.

Regional Division – The Regional Division has more significant revenues and reserves than Retail Divisions and since the use of its Revenue Rate Stabilization Fund benefits rate payers in each Retail Division, a target amount should be equal to 15% of its budgeted operating revenues.

Retail Divisions - It is recommended that the Agency annually maintain Operating Reserves for the Retail Divisions at a minimum target amount equal to 10% of its budgeted operating revenues.

16.3.6 Water Supply Reliability Reserve

These funds are maintained to provide a source of funding for the extraction of water from groundwater banking programs during dry years that will help to further mitigate rate increases. Previously, the Agency has funded water extractions through available fund balances and water rate surcharges. This fund will provide the Agency with additional operating reserves for water supply to safeguard against the potential need to raise rates during future drought conditions and dry years.

Recommended Target Levels – The target for the Water Supply Reliability Reserve will be equal to the cost to produce 5,000-acre feet from the Agency's banking program in a dry year and be funded by taking 50% of the prior fiscal year's water surplus that is in excess of what is required to recover operating expenditures and reserves. The Retail Divisions will not be required to fund this reserve.

Regional Division - It is recommended that the Regional Division maintain a target amount equal to the cost to produce 5,000-acre feet from the Agency's banking program in a dry year.

16.4 REPORTING

The annual Budget document will include a reserve analysis, showing reserve amounts and targets for each type of reserve, and should a major change in conditions threaten reserve levels, the General Manager will provide an analysis to the Board of Directors. This analysis would include an explanation of why reserve levels are below targeted levels and/or a recommended course of action to improve reserve levels.

POLICIES, RULES AND REGULATIONS	
Title: **RESERVE FUND POLICY**	
Policy No.:16.0	Section Nos.: 16.0 – 16.4
Approval Date: November 2018	Effective Date: November 2018
Approved By: Board of Directors	

The following tables illustrate the Reserve Fund Policy target levels:

TYPE OF RESERVE	REGIONAL	NWD	SCWD	VWD
Capital Improvement & Replacement	Current budget pay-go projects	Current budget pay-go projects	Current budget pay-go projects	Current budget pay-go projects
Emergency/Disaster	Equal to 365 days of operating expenditures	2% of net capital assets	2% of net capital assets	2% of net capital assets
Capital Reserve	3-YR average of annual depreciation	3-YR average of annual depreciation	3-YR average of annual depreciation	3-YR average of annual depreciation
Operating	25% of operating expenses plus one-year annual debt service less any restricted DSRF	25% of operating expenses plus 6 months of annual debt service	25% of operating expenses plus 6 months of annual debt service	25% of operating expenses plus 6 months of annual debt service
Revenue Rate Stabilization	15% of operating revenue	10% of operating revenue	10% of operating revenue	10% of operating revenue
Water Supply Reliability Reserve	Cost to produce 5,000-acre feet from banking programs	NA	NA	NA

POLICIES, RULES AND REGULATIONS	
Title: **RESERVE FUND POLICY**	
Policy No.:16.0	Section Nos.: 16.0 – 16.4
Approval Date: November 2018	Effective Date: November 2018
Approved By: Board of Directors	

Regional Target Level

TYPE OF RESERVE	FY 2019 Estimated Balance	FY 2019 Target Balance	% of Target
Capital Improvement & Replacement	$10,799,500	$10,399,500	104%
Emergency/Disaster	29,273,400	26,140,200	112%
Capital Reserve	3,204,700	17,267,793	19%
Operating	26,052,500	24,789,050	105%
Revenue Rate Stabilization	0	3,976,043	0%
Water Supply Reliability Reserve	3,000,000	3,000,000	100%
TOTAL	**$72,330,100**	**$85,572,586**	**85%**
Days Cash Ratio	**1,010**	**1,195**	

NWD Target Level

TYPE OF RESERVE	FY 2019 Estimated Balance	FY 2019 Target Balance	% of Target
Capital Improvement & Replacement	$2,560,262	$2,937,000	87%
Emergency/Disaster	1,500,000	1,646,037	91%
Capital Reserve	0	2,987,406	0%
Operating	623,723	2,634,209	24%
Revenue Rate Stabilization	1,566,625	1,274,737	123%
TOTAL	**$6,250,610**	**$11,479,388**	**54%**
Days Cash Ratio	**244**	**449**	

POLICIES, RULES AND REGULATIONS	
Title: **RESERVE FUND POLICY**	
Policy No.:16.0	Section Nos.: 16.0 – 16.4
Approval Date: November 2018	Effective Date: November 2018
Approved By: Board of Directors	

SCWD Target Level

TYPE OF RESERVE	FY 2019 Estimated Balance	FY 2019 Target Balance	% of Target
Capital Improvement & Replacement	$9,535,700	$9,535,700	100%
Emergency/Disaster	2,200,000	2,255,600	98%
Capital Reserve	3,221,090	4,660,138	69%
Operating	8,928,000	9,532,725	94%
Revenue Rate Stabilization	5,458,365	3,595,590	152%
TOTAL	**$29,343,155**	**$29,579,753**	**99%**
Days Cash Ratio	**385**	**388**	

VWD Target Level*

TYPE OF RESERVE	FY 2019 Estimated Balance	FY 2019 Target Balance	% of Target
Capital Improvement & Replacement	$333,000	$3,137,000	11%
Emergency/Disaster	141,723	1,942,840	7%
Capital Reserve	0	2,739,469	0%
Operating	439,885	7,979,116	6%
Revenue Rate Stabilization	424,369	3,335,272	13%
TOTAL	**$1,338,977**	**$19,133,696**	**7%**
Days Cash Ratio	**24**	**341**	

*Prior to becoming a public water utility, Valencia Water Company did not carry significant reserves. The most recent rate case for Valencia Water Division includes provisions to gradually build reserve levels over the next 10 years.

POLICIES, RULES AND REGULATIONS	
Title: **RESERVE FUND POLICY**	
Policy No.:16.0	Section Nos.: 16.0 – 16.4
Approval Date: November 2018	Effective Date: November 2018
Approved By: Board of Directors	

Total Target Level

TYPE OF RESERVE	FY 2019 Estimated Balance	FY 2019 Target Balance	% of Target
Capital Improvement & Replacement	$23,228,462	$26,009,200	89%
Emergency/Disaster	33,115,123	31,984,677	104%
Capital Reserve	6,425,790	27,654,806	23%
Operating	36,044,108	44,935,099	80%
Revenue Rate Stabilization	7,449,359	12,181,641	61%
Water Supply Reliability Reserve	3,000,000	3,000,000	100%
TOTAL	**$109,262,842**	**$145,765,423**	**74%**

(Originally adopted November 2018)

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT

6075 Kimball Avenue Chino CA 91708 909 993 1600 www.ieua.org

RESERVE POLICY

INLAND EMPIRE UTILITIES AGENCY
RESERVE POLICY
April 2022

Table of Contents

INLAND EMPIRE UTILITIES AGENCY
RESERVE POLICY
April 2022

Policy Statement

The Inland Empire Utilities Agency (Agency or IEUA) has historically maintained fund reserves to ensure sufficient funding is available to meet its operating, capital and debt service obligations, comply with legally mandated requirements, and have the ability to respond to unforeseen events. As a regional provider of essential public services and with an extensive investment in public infrastructure, operating facilities, other related assets, the Agency must establish and maintain a prudent level of reserves to meet its commitment to deliver reliable and high-quality essential services to its customers. In addition, by maintaining prudent reserves the Agency has the necessary financial flexibility to effectively respond to economic, environmental and regulatory changes, protect its customers against reducing service levels or raising rates and fees because of temporary revenue shortfalls or unforeseen one-time expenditures, and support the Agency's Business Goals.

Purpose of Policy

The policy directives outlined in this document are intended to ensure fund reserves support the Agency's Business Goals adopted by the Board of Directors (Board) in December 2016, in particular its commitment to *"preserve fund reserves that sustain the Agency's long term fiscal health, high quality credit rating and ensure its ability to effectively address economic variability"*. The Agency is committed to ensure its customers benefit from reliable, sustainable and high- quality water supplies and cost-effective wastewater collection, treatment, and reuse services. Given the direct impact these essential services have to public health and the overall quality of life, very few options exist, if any, for service reduction levels in the event of revenue shortfalls or other funding deficiencies. In recognition of these realities, and consistent with best practices, the Agency has prudently established reserves to ensure delivery of these essential services.

The IEUA Board may designate specific reserves and set minimum and target balances to support the various funds (programs) that account for its water, wastewater treatment, recycled water and other activities. Establishing and maintaining adequate reserves for the various programs minimizes the risk of significant fluctuation in rates and charges due to changes, such as a shortfall in revenues or unanticipated expenses.

As an issuer of revenue bonds and recipient of low interest loans, the Agency is committed to its contractual obligation to pay debt service and other financial obligations as imposed by bond covenants and loan agreements. In addition, adequate reserves directly affect the Agency's credit rating and access to more favorable interest rate debt markets resulting in lower borrowing costs. Sustainment of high-quality credit rating will ensure the Agency's ability to finance construction, expansion, and improvement of facilities and infrastructure to meet higher service demands from future growth. The Agency is committed to improving its long-term credit to AAA and maintaining a debt coverage ratio that supports such rating. (Business Goal: Fiscal Responsibility).

Roles and Responsibilities

The Reserve Policy shall be adopted by the Board and reviewed periodically during the budget review process to ensure appropriate use of reserve funds and modification of targeted reserve balances for the various funds (programs). The Executive Manager of Finance and Administration /Assistant General Manager shall serve as the designated administrator of the Reserve Policy and shall be responsible for the day-to-day implementation and management.

Types of Reserves

Reserve balances shall be maintained in amounts sufficient to meet appropriate reserve levels, as established by the Board, in cash and/or cash equivalents, and permitted investments as prescribed in the Agency's Investment Policy. The Agency classifies reserves into three major categories as follows:

- **Restricted reserves** – Funds maintained based on externally-imposed restrictions from federal and state regulatory requirements, or legal restrictions imposed by third parties, (example: bondholders) through bond indentures or other contractual agreements (example: Regional Sewage Service Contract).

  Designated reserves – Board imposed restrictions on funds for Agency specific purposes such as mitigating risk from the Agency's self-insurance programs, unfunded liabilities for retirement benefits, and financing replacement and rehabilitation (R&R) of Agency assets. These funds are not legally restricted. In the event of emergency, the Board has the discretion to reassign the spending from the reserve.

- **Unrestricted reserves** – The internal policy of the Agency requires maintenance of adequate undesignated (unrestricted) reserves to finance requirements such as investment in capital and operational efficiencies and refunding of high interest debt obligations. Funds in these reserves are available for spending with no legal, regulatory, or Board imposed restrictions.

For each of the reserves, the Agency has identified a purpose, appropriate reserve levels, funding sources, conditions under which they are to be used and replenished, and review dates for determining continued need. Any reserves in excess of the cumulative target amounts will be considered undesignated funds which can be used for any lawful purpose at the discretion of the Board.

INLAND EMPIRE UTILITIES AGENCY
RESERVE POLICY
April 2022

RESTRICTED RESERVES

Operating Contingency Reserve

Purpose: The Agency is committed to providing wastewater collection, treatment, disposal, optimizing beneficial use of recycled water and biosolids, and regional conservation and water use programs. The Agency strives to provide and maintain a rate structure that is affordable, stable and fully covers the fund (program) cost of service. However, unforeseen shortfalls in revenues or increases or operating costs require that the Agency periodically adjust rates and charges to achieve full cost of service recovery. This reserve is intended to minimize rate fluctuations as a result of unfavorable economic conditions or other factors beyond the control of the Agency that may result in reduced revenues or increased costs.

The Agency shall maintain an operating contingency reserve equal to a minimum of four (4) months, as mandated by legal requirements, and a target of six (6) months of total operating expenses as identified in the adopted budget for the current fiscal year. This level of reserve will provide customers and outside parties assurance that the Agency can operate for at least four months despite a significant shortfall in revenues or unplanned increase in expenses. The target level minimizes the risk of significant rate fluctuations as a result of unforeseen events.

Usage Requirements: This reserve can only be drawn upon if the Agency's operating revenues are not sufficient to pay operating expenses. Draws from these reserves shall be replenished within twelve months after use.

Reserve Level: The Operating Contingency Reserve levels shall be maintained at a minimum of four (4) months, as mandated by legal requirements, and a target of six (6) months of the fund (program) adopted operating expenses for the current fiscal year.

Funding Source: Operating Contingency Reserve will be funded from net system revenues, (total operating revenues less total operating expenses).

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's operations and maintenance (O&M) and capital budget.

Debt Service Reserve

Purpose: As required by bond covenants and loan agreements, debt service reserves are maintained to support payment of principal and interest on outstanding obligations.

Usage Requirements: Debt service reserves will only be used to pay debt service costs when pledged net revenues (as defined in the relevant debt instruments) are insufficient to meet the principal and interest payments.

Reserve Level: The target is equal to the highest annual debt service during the life of the obligation. The minimum level will be funded to meet next fiscal year debt service requirements.

Funding Source: Includes one or combination of system revenues, property tax receipts, and/or restricted debt service accounts established as part of the original debt issuance.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's O&M and capital budget.

Connection Fees Reserve

Purpose: New users connecting to the Agency's regional wastewater or water distribution systems and existing users that significantly increase demand on the system are required to pay a connection fee. The connection fee is intended to recoup the incremental cost of expansion or improvement to regional facilities necessary to accommodate the additional demand. The amount of connection fees collected are accounted for in accordance with the Agency's Board adopted Water Ordinance and the Regional Sewage Service Contract (Regional Contract).

Usage Requirements: Funds are restricted to support for capital expansion, improvement, and replacement and rehabilitation of physical assets, or paydown of existing debt.

Reserve Level: No minimum or target level is established for this reserve. The amount of money deposited into this reserve is dependent on the level of new connections to regional systems and the Agency's funding requirements to support the planned capital projects.

Funding Source: Reserve is comprised of two major components:

- Water connection fees levied on new or upsized connections to the Agency's regional water distribution system. Water connection fees are collected by the Agency and based on meter equivalent units (MEUs).
- Wastewater connection fees levied on new or upsized connections to the Agency's regional wastewater system. Pursuant to the Regional Sewage Service (Regional Contract), wastewater connection fees are based equivalent dwelling unit (EDUs) and are collected by the contracting member agencies in their respective jurisdictions on behalf of the Agency. Contracting member agencies hold wastewater connections fees in a Capital Capacity Reimbursement Accounts (CCRA) until called by the Agency to support capital investments.

Review and Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's O&M and capital budget.

Other Reserves

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the Agency is a party. The Executive Manager of Finance and Administration/ Assistant General Manager will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

DESIGNATED RESERVES

Capital Construction Reserve

Purpose: Capital construction reserve funds are used to finance capital investments such as construction, improvement or expansion of facilities and infrastructure, as well as acquisition of major equipment and technology. The services provided by the Agency are critical to the health and welfare of the residents within the Agency's service area. The Agency is committed to ensure that systems are managed and constructed so that 75% of capacity is never exceeded (Business Goal; Wastewater Management Capacity).

Usage Requirements: Funds in this reserve will fund capital investments based on the Agency's Ten-Year Capital Improvement Plan (TYCIP) and other long-term planning documents including but not limited to; the Asset Management Plan, Integrated Water Resources Plan (IRP), Recycled Water Plan, Wastewater Facilities Master Plan, and Energy Plan.

Reserve Level: The maximum target level will be reviewed annually for each program fund and will be equal to ten-year average of pay-go times three (3) fiscal years, as identified in the Ten Years Capital Improvement Plan (TYCIP). Pay-go for capital construction is CIP costs net of bond or loan proceeds.

The minimum level is equal to ten-year average of CIP pay-go costs.

Funding Source: Combination of system revenues generated from rates and user charges, property tax receipts, and debt proceeds issued to finance specific capital investments.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's O&M and capital budget.

Replacement and Rehabilitation (R&R) Reserve

Purpose: Maintaining assets in an operating condition to meet the Agency's level of service commitment to provide reliable and high-quality services requires timely and adequate investment in replacement and rehabilitation (R&R) of Agency assets. R&R is defined as an expense which will extend, as opposed to maintain, an asset's useful life. The basis for R&R requirements will be end of useful life and condition assessments conducted by Engineering, Maintenance and Operations and reported in Asset Management Report updated every 3 to 5 years. The Agency's ultimate goal is finance planned R&R requirements with user rates and charges. This goal is consistent with the Regional Sewage Service Contract which requires the volumetric EDU rate to fully support operating, administration and R&R costs for the regional wastewater program.

<u>Usage Requirements:</u> As needed to finance unplanned R&R requirements, including R&R requirements identified in the Agency's asset management report but scheduled in subsequent fiscal years.

<u>Reserve Level:</u> The maximum target level will be reviewed annually and can apply one of the following options to calculate the target reserve in reference to the program fund's R&R costs and funding support (e.g. bond or loan proceeds):

a) Maximum target level is equal to ten-year average of R&R costs times three (3) fiscal year, or
b) Maximum target level is equal to ten-year average of R&R pay-go times three (3) fiscal years, as identified in the TYCIP. Pay-go is R&R costs net of bond or loan proceeds.

The minimum target will be the total ten-year average R&R costs.

<u>Funding Source:</u> System revenues generated from rates and user charges, net of operating costs and debt service costs.

<u>Review Timeline:</u> Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's O&M and capital budget.

Self-Insurance Program Reserve

<u>Purpose</u>: An exposure/liability reserve shall be maintained for costs not covered by the Agency's insurance policies, such as claim costs within the Agency's deductibles, self-insurance retentions, and/or costs associated with disasters, and other events that are not reimbursable from insurance. The reserve shall also provide funding to mitigate various catastrophic and other events that may or may not be covered by insurance. These events may include, but are not limited to; legal settlements, terrorist attacks, natural disasters, such as earthquakes, and severe weather storms.

Additionally, the Agency has elected to self-insure for potential workers' compensation claims. With a workforce of over 300, the Agency's exposure to work-related injuries increases.

<u>Usage Requirements:</u> Accessed as needed for non-recoverable expenses associated with claims against the Agency. In the event of a claim in excess of policy limitations and available operating funds, the reserve will be used to satisfy that claim. In the event of a workers'

compensation claim(s) in excess of policy limitations and available operating funds, the reserve will be used to satisfy the claim and/or to pay legal expenses defending the claim

Reserve Level: The minimum level will be set at $3 million and target level will be set at $6 million, including $1,000,000 maximum exposure per occurrence for workers compensation claim.

Funding Source: Property tax receipts allocated to the Administrative Services (GG) fund and inter-fund transfers from other funds, as needed.

Review Date: Reserve balances to be analyzed by Risk Management every two years to determine an appropriate funding level.

Supplemental Water Reserve

Purpose: This reserve will support investment in supplemental water purchases for purposes of increasing water use efficiency, water quality, water reliability and water sustainability in the Chino Basin (Business Goal: Water Reliability).

Usage Requirements: Acquisition of supplemental water to support the water reliability and water quality in the Chino Basin.

Reserve Level: No minimum or target levels are stablished for this reserve

Funding Source: Combination of property tax receipts, net proceeds from the sale of supplemental water, and inter-fund loans, as needed.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's O&M and capital budget.

Sinking Fund Reserve

Purpose: Sinking fund reserves are the systematic accumulation of funds set aside for a specified time frame for the specific purpose of funding major capital projects that cannot be funded by rates/fees or issuance of new debt. Reserves can be used for the design, capital acquisition, construction, equipment and process improvement costs and debt defeasance

Usage Requirements: This reserve can only be drawn upon for the designated purpose for which it was established, unless otherwise approved by the Board.

Reserve Level: The maximum target balance in the Sinking Fund Reserves shall be determined based on the designated capital needs as approved by Agency's Board of Directors.

Funding Source: Sinking Fund Reserve will be funded by property tax receipts and if needed, rates and charges.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency's operations and maintenance (O&M) and capital budget.

Employee Retirement Benefit Reserve

Purpose: The Agency provides postemployment pension to eligible employees who retire from the Agency. For pension benefits, the Agency contributes to a defined benefit pension plan under the California Pension Employees' Retirement System (CalPERS).

Like most public Agencies, the Agency is facing growing unfunded accrued liabilities (UALs) for postretirement benefits. A key objective of the Agency is to develop a funding strategy to fully fund UALs over an appropriate period of time in order to safeguard retiree benefits and the Agency's financial health.

Usage Requirements: To mitigate the impact of annual increase of the annual contribution amounts in excess of the budgeted amount

Reserve Level: This minimum level amount will be set at $6 million and increased annually up to the target level. The target level will be the highest of the minimum or Annual Required Contribution (ARC) amount budgeted in the subsequent fiscal year, based on the actuarial valuation report from CalPERS.

Funding Source: Combination of property tax receipts and indirect allocation of employment costs across all Agency funds (programs) from the Administrative Services fund.

Review Timeline: Reserve levels will be adjusted in conjunction with the annual actuarial valuation updates for pension.

Other Reserves

From time to time, the Board of Directors may deem it prudent to establish other designated reserves in order to further the mission of the Agency. The Executive Manager of Finance and Administration/ Assistant General Manager will create such Reserves as directed and will establish appropriate minimum and target levels, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

UNDESIGNATED RESERVES

The Undesignated Reserve includes all monies collected or generated by or on behalf of the Agency, without regard to the source, except those that have been deemed to be Designated or Restricted. These monies are available for spending with no legal, regulatory, or Board-imposed restrictions.