

## **RESOLUTION NO. 21R-25**

### **A POLICY OF THE BOARD OF DIRECTORS OF THE BIGHORN-DESERT VIEW WATER AGENCY ESTABLISHING CRITERIA FOR AGENCY FINANCIAL RESERVES**

**WHEREAS**, the Board of Directors of the Bighorn-Desert View Water Agency, acting as the elected legislative body of the Agency, is required by law to fix and establish rates, fees and charges which will enable the Agency to cover its debt service payments, operate and maintain its water system, provide for the repairs and depreciation and a reasonable surplus for improvements pursuant to California State Water Code Appendix, Section 112-25.; and

**WHEREAS**, in order to fulfill the fiduciary responsibilities of the Agency, the financial reserve account shall be established, maintained and updated periodically.

**WHEREAS**, a properly designed and Board adopted reserve policy sends a positive signal to the community of ratepayers, bondholders, rating agencies, and regulatory agencies that the Board is committed to the Agency's long-term financial health and viability.

**WHEREAS**, the objectives of a reserve policy are:

- Establish sound formal fiscal reserve policies, which will be the foundation that ensures strong fiscal management and policies that guide future Agency decisions.
- Build adequate reserves over time. This action will provide the Agency with resources to help stabilize the agency's finances and position it to easily absorb economic downturns or large-scale emergencies.
- The funding and subsequent uses of reserves helps smooth rates from year to year and promotes equity over the years to ratepayers.
- Help the Agency to meet its short-term and long-term obligations and ensure that the Agency maintains the highest possible credit rating.

**WHEREAS**, the main areas of risk the Government Finance Officers Association (GFOA) recommend reviewing for determining appropriate Reserve levels are:

#### **1. Revenue Source Stability:**

Risks to revenue instability can occur as a result of voluntary and mandated water conservation and in times of economic downturn. The Agency could also become subject to minimum per capita usage mandates, changing fees from the State, and/or changing regulations regarding water quality, all which can cause lower net revenues to the Agency.

**2. Infrastructure:**

Aging infrastructure presents a higher risk that an expected failure will require the use of Operating Reserves to repair or replace. Water Agencies are infrastructure intensive and are subject to the risk of unplanned failure and related costs in many parts of the distribution system.

**3. Vulnerability to Extreme Event and Public Safety Concern:**

The Agency is also subject to the risk an extreme event such as an earthquake which could seriously damage infrastructure that will need to be repaired or replaced immediately to protect the public health and safety. Even though such damage might be subject to reimbursement from the Federal Emergency Management Agency (FEMA), the Agency would need to have ample cash on hand for needed repairs.

**NOW THEREFORE**, it shall be the Policy of the Agency to manage financial reserves according to the following criteria.

Financial reserves consist of the funds retained in the Agency's account with the Local Agency Investment Fund (LAIF), Pacific Western Bank or other authorized financial institution.

The existing financial reserve accounts are:

Account No. 01-00-131250 – Pacific Western Bank Cash Account; and/or  
Account No. 01-00-133030 – LAIF Cash Account

The Reserve Policy will include the following categories:

- 1) Operating Reserve
- 2) Capital Reserve
- 3) Rate Stabilization Reserve
- 4) Compensated Absences
- 5) Current Customer Deposits
- 6) ID GM Restricted Reserve Fund
- 7) Repayment Obligation to County of San Bernardino Tax Collector
- 8) Emergency Contingencies Fund
- 9) Reserve for Grant Funded Capital Projects
- 10) Unrestricted Reserves

Authorization for use of funds within the financial reserve sub-accounts shall be as follows:

1. Operating Reserve: An Operating Reserve can be used as working capital to manage cash throughout the year. Based on the analysis of the Agency's risk factors, Staff recommends an Operating Reserve of 180 days of budgeted Agency operating expenses.

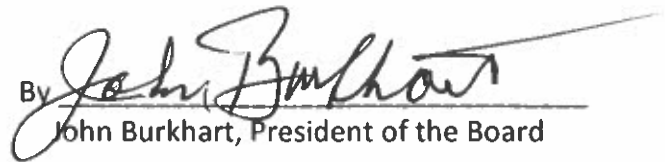
2. Capital Reserve: A Capital Reserve is used to fund the Agency's future Capital Improvement Program. Standard reserve levels for routine capital reserves can vary from 2-5% of total capital assets, or a set flat amount equal to one to five years of the Capital Improvement Plan. Staff recommends a 6% reserve to ensure adequate funding is on hand for emergency repairs.
3. Rate Stabilization Reserve: A Rate Stabilization Reserve can be used in the event of a large decline in revenues or increase in expenses. Based on the risk of revenue reductions due to water conservation, staff recommends a reserve of 25% of the next fiscal year's Operating Revenues.
4. Compensated Absences: As The balance in this fund represents the approximate balance of accrued vacation owed to employees. Amounts are adjusted annually when the financial statement audit is complete.
5. Current Customer Deposits: The balance in this fund represents the approximate balance of customer deposits held by the Agency and refunded per the current Rules and Regulations for Water Service. Amounts are adjusted annually when the financial statement audit is complete.
6. ID GM Restricted Reserve Fund: Represents the balance remaining of cash transferred from CSA 70/W-1 (Landers) that is to be held for the benefit of the ratepayers and property owners with the dissolved district. This fund is also "restricted" for use on "Capital Replacement and Capital Expansion" per San Bernardino Local Agency Formation Commission (LAFCO) Resolution No. 3197 dated March 26, 2015.
7. Repayment Obligation to County of San Bernardino Tax Collector: This amount represents the amount owed to the County of San Bernardino for its overpayment of certain property taxes to the Agency. It will be repaid over the next couple of years.
8. Emergency Contingencies Fund: Expenditures from this fund shall be authorized by the Board of Directors upon presentation of evidence that unencumbered cash is not available to meet an immediate need such as water system repairs or in response to an unforeseen circumstance (e.g. water quality issue or natural disaster).
9. Reserve for Grant Funded Capital Projects: Expenditures from this fund shall be pay in the advance on projects the Agency is going to grant funding for but needs to apply for the funds on a reimbursement basis.

10. Unrestricted Reserves: This represents the amount of reserves left over after meeting the target level on all of the other reserve funds. This amount may fluctuate between positive and negative depending on if there is enough excess net income to fully fund the reserves or not.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Bighorn-Desert View Water Agency that this Resolution establishes the criteria for Agency Financial Reserves and the basis for each reserve level;

**BE IT FURTHER RESOLVED**, that the General Manager and staff of the Agency are hereby authorized and directed to do such things and to take such actions as may be reasonably required to carry out the purpose and intent of this resolution and that Resolution No. 16R-11 is hereby rescinded in its entirety.

**PASSED, APPROVED, AND ADOPTED** by the Board of Directors to Bighorn-Desert View Water Agency this 7th day of December 2021.

By   
John Burkhart, President of the Board

ATTEST:

  
Megan Close-Dees, Secretary of the Board

