AGENDA
MESA WATER DISTRICT
BOARD OF DIRECTORS
Thursday, November 17, 2016
1965 Placentia Avenue, Costa Mesa, CA 92627
3:30 p.m. Special Board Meeting

LEGISLATIVE & PUBLIC AFFAIRS COMMITTEE MEETING
Thursday, November 17, 2016 at 3:30 p.m.

CALL TO ORDER

PLEDGE OF ALLEGIANCE

PUBLIC COMMENTS

Non-Agendized Matters: Members of the public are invited to address the Board on matters which are not on the Agenda. Each speaker is limited to three (3) minutes. The Board will set aside thirty (30) minutes for public comments.

Agendized Matters: Members of the public may comment on Agenda items before action is taken, or after the Board has discussed the item. Each speaker is limited to five (5) minutes.

CONSENT CALENDAR ITEMS:
Approve all matters under the Consent Calendar by one motion unless a Board member, staff, or a member of the public requests a separate action.

1. Advocacy Consulting Services Report
2. Legislative Consulting Services Report
3. Outreach Update

PRESENTATION AND DISCUSSION ITEMS:
Items recommended for approval at this meeting may be agendized for approval at a future Board meeting.
4. Special District Reserve Guidelines

ACTION ITEMS:
5. Special Districts Shared Efficiencies Update

REPORTS:
7. Directors’ Reports and Comments

INFORMATION ITEMS:
None
In compliance with California law and the Americans with Disabilities Act, if you need disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, or if you need the agenda provided in an alternative format, please contact the District Secretary at (949) 631-1206. Notification 48 hours prior to the meeting will enable Mesa Water District (Mesa Water®) to make reasonable arrangements to accommodate your requests.

Agenda materials that are public records, which have been distributed to a majority of the Mesa Water Board of Directors (Board), will be available for public inspection at the District Boardroom, 1965 Placentia Avenue, Costa Mesa, CA and on Mesa Water's website at www.MesaWater.org. If materials are distributed to the Board less than 72 hours prior or during the meeting, the materials will be available at the time of the meeting.

ADJOURNMENT
MEMORANDUM

TO: Legislative & Public Affairs Committee
FROM: Stacy Taylor, External Affairs Manager
DATE: November 17, 2016
SUBJECT: Advocacy Consulting Services Report

RECOMMENDATION

This item is provided for information only.

STRATEGIC PLAN

Goal #4: Increase public awareness about Mesa Water® and about water.
Goal #7: Actively participate in regional water issues.

PRIOR BOARD ACTION/DISCUSSION

This item is updated for the monthly meeting of the Legislative & Public Affairs Committee.

DISCUSSION

Staff will provide a verbal report to the Board.

FINANCIAL IMPACT

In Fiscal Year 2017, $84,000 is budgeted; $28,000 has been spent to date.

ATTACHMENTS

None.
MEMORANDUM

TO: Legislative & Public Affairs Committee
FROM: Stacy Taylor, External Affairs Manager
DATE: November 17, 2016
SUBJECT: Legislative Consulting Services Report

RECOMMENDATION
This item is provided for information only.

STRATEGIC PLAN
Goal #4: Increase public awareness about Mesa Water® and about water.
Goal #7: Actively participate in regional water issues.

PRIOR BOARD ACTION/DISCUSSION
This item is updated for the monthly meeting of the Legislative & Public Affairs Committee.

DISCUSSION
Mesa Water District (Mesa Water®) receives legislative consulting services from Townsend Public Affairs (TPA). As part of its service to Mesa Water®, TPA submits a monthly written report of its activities on behalf of the District, including a legislation matrix.

FINANCIAL IMPACT
In Fiscal Year 2017, $60,000 is budgeted; $20,000 has been spent to date.

ATTACHMENTS
Attachment A: Monthly Political and Activity Report
MEMORANDUM

To: Mesa Water®  
From: Townsend Public Affairs, Inc.  
Date: November 7, 2016  
Subject: Monthly Political and Activity Report

Specific Activities for the Month:

- TPA monitored the second Little Hoover Commission meeting on special districts relating to climate change and provided notes to staff.

- TPA provided Mesa Water staff with a memo compiling various recommendations for special district reserves by specific organizations.

- TPA compiled an election matrix for Mesa Water staff to track new Orange County city council members, board members, and members of the Legislature after the November 8 election. TPA will assist Mesa Water staff in sending out congratulatory messages to each newly elected individual after the November 8 election.
State Political Update

The dynamics of the both the Assembly and Senate could change after the November 8 election. The Legislature will reconvene with several new members, as 14 Assemblymembers and 6 Senators who were subject to the pre-Proposition 28 term limits have term ed out in 2016. In the Assembly, the Democrats are hoping to pick up two seats in order to secure a two-thirds supermajority. They have targeted approximately seven different races that they believe have a chance of electing a Democrat on November 8. In the Senate, the Democrats only need to pick up one seat in order to secure a two-thirds supermajority, however they are only targeting one race (29th Senate District – San Dimas/Brea/Fullerton). The Legislature will return on December 5 to swear in the new members before recessing again until the first week of January.

A new Department of Finance report showed that California revenues in the month of September exceeded expectations for the second month in a row, after four straight months of shortfalls. Despite collecting $150 million more than expected, the fiscal year-to-date revenues are still slightly below estimates. The largest share of revenues that exceeded expectations came from Sales and Use Tax, with Personal Income Taxes also performing better than expected and Corporation Tax revenues falling short.

Little Hoover Commission

On October 27, the Little Hoover Commission (LHC) conducted its second public meeting to discuss special districts. Unlike the first meeting which focused on special district reserves, the focus of this meeting was on climate change adaptation efforts by special districts. The tone of the meeting was positive and the LHC made no mention of any plans to hold additional hearings.

Presenters at the meeting spoke to the challenges that special districts face when trying to combat climate change. Several local water and sanitation agencies testified to the LHC about both their successes and challenges on adapting to climate change, and how the LHC and the State can help. Little Hoover Commissioners finished the meeting by stressing the importance of regional cooperation by special districts when addressing climate change issues.

The LHC will release a report that summarizes the two meetings on special districts in the next couple of months. If the LHC has any recommendations for special districts after hearing testimony from around the State, they will be included in the report. TPA will continue to monitor the Little Hoover Commission for any activity related to special districts and will let Mesa Water know once the report is published.

State Water Use: September 2016

In the month of September, California urban water suppliers reduced their water use by 18.3 percent when compared to September 2013, an increase of 0.8% from August 2016. The SWRCB expects the conservation percentage to drop as we enter what are typically the wet months of the year, however they are pleased that Californians were able to stop the downward trend beforehand. Beginning next year, the State will decide if a return to state-mandated conservation rates will be required in order to conserve water in a safe and responsible way.

In September:

- Statewide water savings for September 2016 was 18.3 percent (116,703 acre feet or 38.0 billion gallons), an increase from August 2016’s 17.5 percent savings, but a decrease from September 2015’s 26.2 percent statewide savings (55.9 billion gallons).
September 2016 water savings are 32 percent lower than September 2015.

- Cumulative statewide water savings for June 2015 to September 2016 (sixteen months) was 23.0 percent, compared with the same months in 2013. That equates to 2,145,241 acre-feet (699 billion gallons).

- Statewide average per person water use for September 2016 was 105.9 residential gallons per capita per day (R-GPCD), below the 113.7 R-GPCD in August 2016 but above 96.9 R-GPCD reported for September 2015.

**Relevant 2017 Ballot Initiatives to Mesa Water**

**Proposition 53: Statewide voter approval for revenue bonds.**

Proposition 53 would require statewide voter approval before any revenue bonds can be issued or sold by the state for projects that are financed, owned, operated, or managed by the state or any joint agency created by or including the state, if the bond amount exceeds $2 billion. This measure also prohibits dividing projects into multiple separate projects to avoid statewide voter approval requirement. Proposition 53 may affect many large-scale state projects, including transportation projects, college facilities projects, and the proposed Delta tunnels project. Opponents of the initiative explain that high dollar regional transportation projects could potentially be subject to voters across the entire State. Additionally, Proposition 53 does not have an emergency clause to suspend this rule after natural disasters or other emergencies.

Recent polling data obtained from Capitol Weekly:

- Yes - 43%
- No – 20%
- Undecided – 37%

**Proposition 54: Legislation and Proceedings**

Proposition 54 would prohibit the Legislature from passing any bill unless it has been in print and published on the Internet for at least 72 hours before the vote, except in cases of public emergency. This initiative also requires the Legislature to make audiovisual recordings of all its proceedings, except closed session proceedings, and post them on the Internet. Proposition 54 additionally authorizes any person to record legislative proceedings by audio or video means, except closed session proceedings.

Recent polling data obtained from Capitol Weekly:

- Yes - 53%
- No – 18%
- Undecided – 29%

**Federal Legislative Update**

Congress remains out of session through the week of the election, after which it has major decisions to make on which bills will make the final cut and become law before the end of the year. At the top of their list are full-year appropriations for Fiscal Year 2017, as staffers will work to reconcile House and Senate
spending bills with the goal of producing an omnibus appropriations bill, or multiple “minibus” appropriations bills. Several other high priority bills, including a reauthorization of the water resources bill, will follow full-year funding.

**Water Resources Development Act (WRDA)**

Both chambers’ versions of the WRDA bill (H.R. 5303 and S. 2848) passed before the end of session, but the two bills will still need to be reconciled during a House-Senate conference after the recess. Both the House and Senate have included language in their water-project’s bills to enable lead-stricken Flint, Michigan, and other communities to borrow money from a fund to remove pollutants from their water systems.

The House WRDA bill includes a provision sought by Orange County Water District (OCWD) that maintains the existing water conservation policy at Prado Dam, allowing the District to capture and store additional Santa Ana River water supplies. The provision also provides that non-federal interests shall pay only the separable costs associated with the evaluation, implantation operation and maintenance of an approved water supply conservation measure, consistent with OCWD’s goals. The Senate WRDA bill contains similar language, which suggests the conference committee is likely to include the provision, or a version of the provision, in the final version of the bill.

**Drought Legislation**

Legislation to address and alleviate California’s drought becomes less and less likely to pass before the end of the 114th Congress in December. Leadership in both chambers have stated that they support a minibus approach to passing full-year federal funding by December 9, 2016. This strategy, which groups the eleven remaining appropriations bills together into several larger but easier-to-pass bills, theoretically could allow some components of either the House (H.R. 2898) or Senate (S.2533) drought bills to be included.

However, proponents of the House drought bill were unable to get it inserted into the House WRDA bill, which is a poor sign for inclusion in the must-pass minibus bills.

Additionally, Senator Feinstein will likely oppose the inclusion of any of the more controversial water provisions from the House drought bill, especially those focused on increasing pumping at levels that exceed what is permissible under the Central Valley Project biological opinions.
MEMORANDUM

TO: Legislative & Public Affairs Committee
FROM: Noelle Collins, Public Affairs Coordinator
DATE: November 17, 2016
SUBJECT: Outreach Update

RECOMMENDATION

This item is provided for information only.

STRATEGIC PLAN

Goal #4: Increase public awareness about Mesa Water® and about water.
Goal #5: Attract and retain skilled employees.
Goal #6: Provide outstanding customer service.
Goal #7: Actively participate in regional water issues.

PRIOR BOARD ACTION/DISCUSSION

This item is updated for the monthly meeting of the Legislative & Public Affairs Committee.

DISCUSSION

Mesa Water District's outreach program aims to connect Mesa Water with its constituents in order to achieve Goal #4 of the District’s Strategic Plan. Outreach activities are also designed to achieve the Strategic Plan goals related to human resources, customer service, and/or regional water issues involvement by educating and informing the District’s constituents about Mesa Water, water issues, and water in general. Mesa Water’s constituents include external audiences -- such as customers; community members; elected officials; industry colleagues, water districts and special districts; and media -- as well as internal audiences such as staff, retirees and Board members.

Staff recently hosted “Women in Water” at the Mesa Water Reliability Facility (MWRF), bringing the number of MWRF visitors to 1,312.

Upcoming FY 2017 Events

1. 5th Grade Assemblies at Whittier Elementary on Tuesday, November 22, 2016 at 9:40 a.m. and 10:40 a.m. and at College Park Elementary at 1:30 p.m.
2. Costa Mesa Home Tour on Thursday, December 1, 2016 from 3:00 p.m. to 8:00 p.m.
3. OC Fair Art Contest Judging #drainstoocean on Monday, December 5, 2016
4. Fantasia presented by Vanguard University at Segerstrom Center for the Arts on Tuesday, December 6, 2016 at 8:00 p.m.
The benefits of Mesa Water’s outreach program include:

- Informing constituents about Southern California’s perpetual drought, the historical drought facing California, and the importance of developing local and cost-effective sources of safe, reliable water for Mesa Water’s service area and the region at large;
- Educating constituents about the importance of water and water stewardship, in order to sustain Southern California’s population, quality of life, business, and economy;
- Educating constituents about Mesa Water’s stewardship of ratepayer funds and financial responsibility to fund, invest in, and save for the current and future provision of safe and reliable water for the District’s service area;
- Informing constituents of the District’s infrastructure improvements to ensure water quality and water reliability for its service area;
- Learning from constituents and evolving as a well-informed Board of Directors;
- Promoting water use efficiency to Mesa Water’s customers and community members to help them save water, money, and the environment;
- Ensuring, for public health and safety reasons, that Mesa Water customers and community members identify the District as their water provider and as the source of information about water in emergency situations;
- Supporting Mesa Water’s service area as an actively involved participant in programs that provide added value and benefits to the community;
- Informing the media of Mesa Water’s activities that benefit the District’s customers and community;
- Empowering Mesa Water’s Board and staff with information that will help them provide the best possible service to the District’s customers and community members; and,
- Strengthening Mesa Water’s industry relations to provide opportunities for improving the District’s business and operations -- including the areas of financial and human resources strength, infrastructure and technological innovation, and setting/supporting policies that have a positive impact on Mesa Water’s service area -- so that the District can continue to provide safe, high-quality, reliable, and affordable water to its customers.

**FINANCIAL IMPACT**

In Fiscal Year 2017, $100,000 is budgeted; $24,100 has been committed.

**ATTACHMENTS**

None.
MEMORANDUM

TO: Legislative & Public Affairs Committee
FROM: Stacy Taylor, External Affairs Manager
DATE: November 17, 2016
SUBJECT: Special District Reserve Guidelines

RECOMMENDATION

This item is provided for information only.

STRATEGIC PLAN

Goal #3: Be financially responsible and transparent.
Goal #4: Increase public awareness about Mesa Water® and about water.

PRIOR BOARD ACTION/DISCUSSION

At the August 25, 2016 Legislative & Public Affairs Committee (LPAC) meeting, the Board requested reserve guideline information.

DISCUSSION

Per its fiscal policies, Mesa Water District maintains reserve levels -- 600 days cash on hand, which currently equals $40 million -- to ensure a strong AAA rating from credit rating agencies such as Fitch and Standard & Poor’s. Attached to this report is information about special district reserve guidelines, as researched by Mesa Water® staff and Townsend Public Affairs, from the below-listed organizations:

- American Society of Civil Engineers (ASCE)
- American Water Works Association (AWWA)
- Association of California Water Agencies (ACWA)
- California Special Districts Association (CSDA)
- Little Hoover Commission (LHC)
- Orange County Grand Jury

FINANCIAL IMPACT

None.

ATTACHMENTS
Attachment A: Special District Reserve Analysis by Townsend Public Affairs
Attachment B: ACWA Policy Principles & Guidelines to Protect Property Taxes & Reserve Funds
Attachment C: ACWA Letter to the Little Hoover Commission
Attachment D: CSDA Special District Reserve Guidelines
MEMORANDUM

To: Mesa Water®

From: Townsend Public Affairs, Inc.

Date: October 25, 2016

Subject: Special District Reserve Analysis

As follow up to the Little Hoover Commission meeting on August 25, the below memo summarizes the recommendations that six organizations provide on special district reserve levels. While none of the six organizations have mathematical formulas for determining the proper amount of reserves a special district should have, several of them have policy statements that reflect the organizations’ preference.

**Association of California Water Agencies** – ACWA does not have specific recommendations for reserve funds. ACWA staff references a 2005 report titled *ACWA Policy Principles and Guidelines to Protect Property Tax and Reserve Funds*, which states that:

- Special districts have constitutional authority under Article XIIIB to establish such reserve funds as the districts **deem reasonable and proper**.
  - This could potentially provide legal backing to special districts when determining what they think is right when it comes to their reserve fund levels
- These funds are not surplus, but are needed for important specific purposes. A lack of understanding and mischaracterizations have led to criticism of special districts by legislators.
- The ability for water and wastewater agencies to maintain reserves is a critical factor in providing reliable service, mitigating rate increases and for the agency’s overall financial strength.

The 2005 report provided a framework, or set of principles, for a Board of Directors to consider before adopting a reserves policy for their water or wastewater agency.

**California Special District Association** – CSDA does not have any formulaic recommendation for calculating the appropriate reserve level for special districts. In fact, they explicitly say otherwise in their 2013 *Special District Reserve Guidelines* report when they state:

- 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.

The report did have one broad recommendation on special district reserve levels, when it said:
• 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.

The 2013 report jumped around the topic of special district reserves without making concrete recommendations. It does, however, empower a Board of Directors of a special district to make the decision regarding special district reserve levels themselves, while keeping in mind a framework of best practices.

**American Water Works Association** – AWWA does not have a specific recommendation for special districts regarding reserve levels. However, they do have broad financial policy statements that are published on their website, such as:

• Utilities should not implement any policy or practice that compromise the long-term financial integrity of the utility or its ability to provide quality service to customers
• Revenues from water and wastewater service charges, user rates, and capital charges should be sufficient to pay for annual operation and maintenance expenses, financing of capital costs, maintenance of working capital and required reserves, and achievement of defined financial performance metrics.

**Little Hoover Commission** – The LHC currently does not have any cash on hand standards. When asked, LHC staff referenced their May 2000 report for more information, even though it doesn’t provide any specific reserve recommendations. LHC staff also stated that another report will be released in 2017, but does not know if it will contain specific recommendations or standards.

**OC Grand Jury** – The OC Grand Jury does not have any specific cash on hand standards. However, in a 2012 OC Grand Jury paper titled *Let There Be Light - Dragging Special Districts from the Shadows* they found that in relation to special district’s reserves “Local citizens are not openly informed of this wealth when agencies ask for fee increases, special assessments, or bond measures. Most of the special districts do not appear to have specific criteria for amassing these reserves nor do they have published long-range plans for their constructive use.” The report also goes on to state that “each special district should contribute 1% of its unrestricted reserve fund to LAFCO to help finance preparing and directing the consolidation, absorption, or elimination, and the setting of standards for reserves for the special districts.” So far, this has not happened and no standards are in place.

**American Society of Civil Engineers** – No cash on hand standards.
ACWA POLICY PRINCIPLES 
AND GUIDELINES

to Protect Property Tax and Reserve Funds

2005
ACWA’s mission is to assist its members in promoting the development, management and reasonable beneficial use of good quality water at the lowest practical cost in an environmentally balanced manner.

ACWA is a statewide non-profit association whose 440 public agency members are responsible for about 90% of the water deliveries in California.
ACWA POLICY PRINCIPLES AND GUIDELINES
to Protect Property Tax and Reserve Funds

2005
Dear ACWA Member:

Over the past several months, a work group of ACWA members and ACWA staff have been developing a number of proactive strategies, materials and forums to both assist members in protecting their ad valorem property tax revenues and reserve funds and to develop policies to enhance our advocacy. This effort was in response to the reallocation of property tax revenues by the state legislature to help balance the state budget. Special district reserve funds have also been a point of discussion by legislators, though no action has been taken.

We are pleased to provide you with our most recent product, “ACWA Policy Principles and Guidelines to Protect Property Tax and Reserve Funds.” This document contains background, policy principles and guidelines developed by the workgroup and approved by the ACWA Board of Directors. Policy principles regarding property tax and reserve funds are included to clearly define for legislators how these funds are used and why they are so critical and to provide clear guidance for ACWA’s advocacy on these issues. Finally, we have provided you with guidelines and sample policies to help members better identify how they use reserve funds. That piece is titled, “Special District Reserve Funds: Developing Policies to Ensure Their Appropriate Use.”

If we have learned anything, it is that agencies must have prescriptive policies on the books to define the use of various funding sources. Such policies are critical to protecting these funds.

Other activities that our workgroup has been involved with include:

• working with ACWA staff, other special district associations and the State Controller’s Office (SCO) to host nine workshops on the annual reporting process for special districts.

• identifying areas of improvement for the special district reporting form used by the SCO.

• requesting participation on the SCO’s advisory committee.

We believe these efforts will better position ACWA as it advocates on behalf of its members and will help members establish local policies that will protect these funding sources in the future.

Sincerely,

E.J. Jerry Gladbach
President, Association of California Water Agencies
Director, Castaic Lake Water Agency

Virginia Grebbien
Chair, ACWA Property Tax / Reserves Workgroup
General Manager, Orange County Water District
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Background and Strategies to Protect Property Tax and Reserve Funds

Background

Recent property tax “shifts” by the California State Legislature, coupled with continuing budget pressures to redirect local revenues to the state, will cause short-term and long-term financial problems for many water districts. The state’s actions are occurring at the same time districts are challenged on many other legislative and regulatory fronts. To reverse this trend, ACWA and its members must pursue a joint legislative and communications strategy with the following goals:

1. **Protect Local Property Taxes for Special Districts** — Especially for water districts that are bearing the brunt of the state-initiated property tax “shift” over the next two years.
2. **Protect Critical Reserve Accounts** — Halt any state legislative or budget attempts to raid water district reserve funds or restrict the districts’ ability to hold such funds.
3. **Educate Legislators and the Public** — Work to educate and continue to communicate the connection between local revenues and services provided by special districts.

Policy Principles:

Through its member work group, ACWA developed a set of principles, approved by the ACWA State Legislative Committee and accepted by the ACWA Board, to address the implementation of the current property tax shift and set up a framework for future actions by the Legislature and the Administration for borrowings under Proposition 1A. They include:

1. ACWA will unilaterally oppose any attempts to reallocate the property tax shift for 2005 and 2006.
2. ACWA will represent its members in any future negotiations.
3. ACWA will form partnerships to communicate and advocate on behalf of members regarding the property tax shift and any future state borrowings under Prop. 1A.
4. ACWA will work proactively with other statewide local government associations on any future negotiations regarding property tax loans to the state under Prop. 1A.
5. ACWA will oppose any effort to reallocate its members’ property taxes at the county level.
(6) ACWA will oppose use of the formula applied to the current property tax shift in any future borrowings under Prop. 1A.

(7) ACWA will clarify and if necessary work to change the statutory meaning of key terms applied in the current property tax shift to avoid future inequities.

Means to Achieve Goal

ACWA, through its Communications Committee, has developed an action-oriented communications strategy to increase awareness across a broad range of audiences regarding both the property tax and reserve issues.

Basic premises for the strategy:

- Citizens want their local financial resources (property taxes and reserve funds) used to pay for local services (reinforced in the statewide poll conducted by ACWA in November 2004).

- Informed local voices can make a difference in Sacramento.

- Water and wastewater districts are fiscally responsible agencies. Their fiscal responsibility should not be jeopardized by the state's inability to manage its finances.

- Water and wastewater districts are responsible for building and maintaining billions of dollars worth of infrastructure critical to the continued long-term economic health of the state.

First Steps

The action plan described here is a sustained effort that will take time to develop and put into play. However, there is something water agencies can do in the short term:

- There is a strong and direct case for relationships between retaining property taxes and reserves and the ability of water/wastewater agencies to safely and reliably meet the needs of their customers and communities.

- Use the recent findings of the statewide public opinion poll conducted through the joint ACWA / CSDA “Capital Improvements Program.” It shows great public support and preference for local entities providing critical local services with local resources. (Survey at [www.acwa.com](http://www.acwa.com))
Document and demonstrate the linkage between revenues and how they will be spent for capital improvements and other services. Establish clear policies for reserve fund designation.

Focus on messages that will resonate with key audiences, including customers, legislators and other decision makers (see attached targeted message points).

**MAKE THE CASE LOCALLY**

Your action plan should include the following elements:

- Develop, adopt and display a reserve policy if you don’t have one.

- Work with the media. Visit editorial boards, set up interviews with radio and television talk shows, submit op-eds, and write letters to the editor. Use your talking points to make sure that key messages are consistent and clear. Send favorable editorials and letters to the editor from other third parties to your legislators.

- Establish a special Web page devoted to the property tax “shift” and reserve funds. Use key messages and clear explanations.

- Use billing inserts, special newsletters and your new web page to tell your customers why rates increased. On your bills, specify surcharges or rate increases that are related to the tax “shift” and make it clear this was required by state budget action.

- Build coalitions. Set up meetings with local chambers of commerce, business alliances, special interest groups, and other influential community members. Use the talking points attached to prepare a PowerPoint presentation. Obtain the commitment of community leaders to work on your behalf with their constituents and with lawmakers.

- Supply names, addresses and phone/fax numbers of legislators to members of your coalitions and to your constituents, and ask selected customers to talk directly with legislators.
Background And Policy Principles on Reserve Funds

Background

Special districts have constitutional authority under Article XIIIB to establish such reserve funds as the districts “deem reasonable and proper.”

Cash reserves are developed as part of an overall financial management strategy for special districts.

Special districts comply with GASB 34 with respect to the reporting of reserves. Special districts have another obligation to assist the public and the legislature in understanding the purpose of special district reserves and the appropriate levels that should be held.

Illustrating the need for clarity are the following examples. Water and wastewater agency “reserves” have frequently been mischaracterized, both in terms of total amounts held, and the purposes for which these funds are accumulated and used. Various state reports by the Little Hoover Commission and others have overstated the level of cash reserves by incorporating the numbers into the broader category of “retained earnings.” A correct representation is that retained earnings represent not only the cash and investments on hand, but also include the net value of capital facilities, land and equipment measured from the very inception of the agency.

Water and wastewater agency reserves have also been described as funds held in excess of the agencies’ actual needs. In reality, these funds are not surplus, but are needed for important specific purposes. A lack of understanding and mischaracterizations have led to criticism of special districts by legislators.

It is essential that special districts adopt well-defined reserve policies to ensure that the public and district customers and other key audiences are informed on the purpose of maintaining reserve funds.

To assist members as they develop reserve policies, ACWA has developed the following policy principles. These principles will guide ACWA’s legislative and policy activities regarding reserves in the future.

Description of Reserves

Reserve funds are held by districts for important specific purposes:

Restricted Funds – are those funds held to satisfy limitations set by external requirements and restraints of creditors, grantors, contributors or law. Examples include requirements in bond covenants that funds be held for specified purposes (such covenants are required
by bondholders and help water and wastewater agencies gain access to capital markets at attractive interest rates); capital improvement fees; pension plan obligations; and service deposits.

**Obligated Funds** – are set aside to meet contractual financial commitments for unfulfilled services and purchases that are intended to be honored.

**Designated Funds** – though not required by any specific covenant or contractual provision, designated funds include but are not limited to those items listed here. (It is recommended that a written policy be established outlining short-, mid- and long-term financial plans for the funding of new capital facility construction and capital facility replacement and refurbishment.)

- Funding for New Capital Facility Construction
- Funding for Capital Facility Replacement and Refurbishment
- Rate Stabilization – allows the district to balance short-term fluctuations in revenues without unplanned, unforeseen significant rate increases that could severely impact ratepayers, i.e. providing rate stability for customers.
- Operation Reserves – provides the district with the financial flexibility to respond quickly to emergency repairs; water quality emergencies, like toxic spills or contamination that pose threats to public health and the agency’s ability to sustain safe or reliable service; and catastrophic or self insurance requirements.

**Findings and Policy Principles**

With this as a background, the Association of California Water Agencies makes the following findings and adopts the following policy principles:

**Findings:**

- Adequate levels of reserves, or funds designated for various legitimate purposes, are critical to the successful and stable short- and long-term operation of water and wastewater agencies.

- Reserves for agency operations ensure that customers experience both stable rates for service and the security that the agency can respond to short-term emergencies, especially regarding water quality issues.

- The ability for water and wastewater agencies to maintain reserves is a critical factor in providing reliable service, mitigating rate increases and for the agency’s overall financial strength. The reserve levels directly affect an agency’s bond
rating, and ultimately its ability to access debt markets at favorable interest rates, ensuring the ability to finance and construct the infrastructure necessary to renew existing systems and expand service levels to meet future needs.

- It is the responsibility of the locally elected board of directors to determine the appropriate level and uses for reserve funds based on the needs of the district’s customers.

**Policy Principles:**

Based upon these findings, ACWA adopts the following policy principles concerning establishing and maintaining reserves:

1. ACWA, working proactively with other statewide local government associations, will vigorously oppose any administrative or legislative efforts to access or transfer any reserve funds held by water and wastewater districts;

2. ACWA will take the lead in any future discussions or negotiations pertaining to the legislative and budget issues relative to preserving control of members’ reserves;

3. ACWA encourages its members and all other water and wastewater special districts to take the steps necessary to review and possibly amend existing policies, and develop/adopt and provide ready public access to policies clearly setting forth how reserves are accumulated and utilized. The policies should establish the nature and purpose of each fund, minimum and maximum target levels for the accumulation of assets in each fund consistent with asset planning and indicate the circumstances under which reserves may be expended.

4. ACWA further encourages its members to outreach to the general public, local, regional and state officials and agencies, as well as members of the legislature, to foster a greater understanding regarding the critical relationship between adequate reserves and the successful short- and long-term operation of water and wastewater agencies.

5. ACWA will protect the discretion of locally elected boards of directors to determine the appropriate level and uses for reserve funds based on the needs of the district’s customers.
Special District Reserve Funds:
Developing Policies to Ensure Their Appropriate Use

Overview

Maintaining adequate cash reserves is an essential part of sound financial management. For special districts such as water and sewer agencies, reserves play a critical role in providing reliable service, financing long-term capital projects and responding to emergencies.

Special districts have constitutional authority under Article XIIIIB to establish such reserve funds as the districts “deem reasonable and proper.”

But as important as reserves are to a special district’s bottom line, there is an equally important need for each special district to adopt well-defined, individualized policies for their use and help customers, lawmakers and other audiences understand the purpose of maintaining these vital funds.

The Association of California Water Agencies (ACWA) has prepared this document as a tool for water agencies and other special districts to use as guidelines in developing and adopting their reserve policies. The guidelines provided here are general in nature and should not be considered formal legal or financial advice. Prior to adopting any policy, water agencies and other special districts should seek review by their legal counsel, financial officers and/or auditors to ensure compliance with all laws, rules and regulations.

Background

Article XIIIIB of the California Constitution provides special districts and other local governments with authority to establish reserve funds as they “deem reasonable and proper.” Many special districts have established such reserves and have adopted clear policies for governing their use.

Unfortunately, as evidenced by a 2000 report by the Little Hoover Commission and subsequent inquiries by legislators and local grand juries, in general there is little understanding among the public and policymakers of special district finances and in particular, the need to have adequate reserves. Some reports have mischaracterized and overstated reserves held by water and wastewater agencies, for example, both in terms of total amounts held and the purposes for which the reserves are accumulated and used. The Little Hoover Commission, legislators and others have criticized special districts for lacking clear and easily understood policies for using reserves and suggested additional oversight (outside of the district) may be needed.
These reports and recent discussions in Sacramento point to a strong need for special districts to develop and adopt well-defined reserve policies, make those policies readily accessible to the public, and educate lawmakers and other key audiences on the importance of reserves and their appropriate use.

**A Look At Reserves: Different Categories for Different Purposes**

Most special districts such as water and wastewater agencies adopt an annual budget in a public process that identifies projected expenses and revenues, including property tax revenues (where applicable) and, in the case of enterprise districts, fees charged for services such as water and sewer. Operating expenses include such items as water treatment and delivery, system operation and maintenance, and infrastructure costs.

During the course of the fiscal year, any excess in the amount of fees and other revenue collected over the total amount expended (i.e., operating expenses, non-operating expenses and capital expenditures, etc.) in the same period goes under the heading of fund balance or retained earnings. Retained earnings are not the same as cash on hand. Rather, retained earnings are the difference between assets (including facilities, land and investments) and liabilities (the amount owed on the facilities and land).

With the new requirements of GASB 34, retained earnings is now called net assets, and they are divided into two categories: 1) net assets invested in capital, net of related debt, and 2) restricted and non-restricted net assets.

Generally speaking, reserve funds refer to the second category. They should not be seen as “surplus” funds, but rather necessary funds designated or restricted for various purposes important to the short- and long-term operation of an agency. Special districts accumulate and maintain reserve funds in three main categories, each with its own specific purposes.

1. **Designated funds** are earmarked by the district’s legislative body (board of directors) for purposes such as funding new capital facilities, construction, repair or refurbishment of existing facilities, rate stabilization and operating reserves. These funds can be utilized at the discretion of the district. The legislative body can change fund designations at any time.

2. **Obligated** (or encumbered) **funds** are set aside to meet contractual financial commitments for services not yet fulfilled and purchases that will take place in the future.

3. **Restricted funds** are used strictly to meet requirements established by creditors, grant agencies or contributors, or law. Examples include bond covenants, capital improvement fees, pension plan obligations and service deposits. The district has no discretion as to the use of these funds.
**Key Points About Reserves**

- Adequate levels of reserves, or funds designated for various important purposes, are critical to the successful and stable operation of water and wastewater agencies.

- Maintaining adequate reserves can translate into rate stabilization from year to year for customers and provides assurance that an agency can respond to short-term emergencies, including water quality issues and spikes in energy costs such as those seen in 2001 and 2002.

- Adequate reserves directly affect an agency’s bond rating, and ultimately its ability to borrow money at affordable interest rates. This in turn ensures the ability to finance and construct infrastructure necessary to improve existing systems and expand service levels to meet future needs.

- It is the responsibility of each district’s locally elected board of directors to determine the appropriate level of and uses for reserve funds based on the needs of the operations of the district’s customers.

- Adopting well-defined reserves policies can go a long way toward assuring customers, lawmakers and the public that reserve funds are being accumulated, managed and utilized appropriately and for defined purposes. Reserves, without a well-defined policy, are often referred to as surplus or excess funds which can be misconstrued to mean fees are set too high.

**Developing a Policy: Things to Consider**

Developing and adopting a policy that articulates a clear and well-defined rationale for accumulating and using reserves should be an integral part of any special district’s sound financial practices. As such, a reserve policy must be consistent with and complementary to other financial policies governing operating budgets, capital budgets, and other areas.

ACWA recommends that water agencies consider several factors in developing their reserves policies:

- Goals, needs and unique factors facing the agency
- Strategic plans and capital improvements plans adopted by the agency
- Communications mechanisms to keep customers, lawmakers and others informed
- Procedures for clearly reporting financial information and ensuring compliance with all state laws, accounting requirements and adopted policies
- Opportunities for regular review of reserves policies and other financial policies
Additional Resources and Sample Reserve Policies

**Additional Resources**

Institute for Local Self Government  
[www.ilsg.org](http://www.ilsg.org)

California Special Districts Association  
– [www.csda.org](http://www.csda.org)  
– *Special District Reserve Guidelines (2002)*

**Sample Reserve Policies**

A series of sample reserve fund policies provided by ACWA’s public agency members follow for your information.
Sample Reserve policies

Sample Reserve Policy #1

Calleguas Municipal Water District

RESOLUTION NO. 1373

RESOLUTION OF THE BOARD OF DIRECTORS OF THE CALLEGUIAS MUNICIPAL WATER DISTRICT REALLOCATING A PORTION OF ITS GENERAL FUND RESERVE BALANCE TO THE CONSTRUCTION FUND

WHEREAS, it is appropriate and necessary for the Calleguas Municipal Water District to set goals for its General Fund and Construction Fund reserve balances for the purpose of long-range financial and strategic planning; and

WHEREAS, Calleguas has reviewed its reserve requirements and determined that it is reasonable and necessary to transfer certain balances from the General Fund to the Construction Fund to increase the Construction Fund balance for use on scheduled future construction projects and rehabilitation and replacement of existing facilities; and

WHEREAS, the monies in these funds are considered Restricted for the uses specific to each Fund; and

WHEREAS, Calleguas will review its reserve requirements on an ongoing basis.

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

1. Calleguas hereby reallocates a portion of the General Fund in the amount of Thirty Million Dollars ($30,000,000) to the Construction Fund.

2. Calleguas intends to maintain a minimum balance in the General Fund of Fifteen Million Dollars ($15,000,000), and Twenty-Five Million ($25,000,000) in the Construction Fund.

3. Calleguas' goal is to increase the minimum balance in each fund by five percent (5%) annually.

4. Calleguas will review its reserve requirements on an ongoing basis, and the Board may further transfer or adjust the fund balances as reasonably necessary.

ADOPTED, SIGNED AND APPROVED this sixth day of November, 2002.

____________________________
Ted Grandsen, 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 November 6th, 2002.

Attest:

__________________________________
Donald G. Hauser, Secretary, Board of Directors
Contra Costa Water District

Reserve Policy

The purpose of the Contra Costa Water District's (CCWD) Reserve Policy is to ensure that the District will at all times have sufficient funding available to meet its operating, capital and debt service cost obligations. Reserves will be managed in a manner that allows the District to fund costs consistent with its annually updated Capital Improvement Program and Ten-Year Financial Plan as well as other long-term plans while avoiding significant rate fluctuations due to changes in cash flow requirements. Operating reserves will be maintained at a minimum level of six months of budgeted operating costs, consistent with the adopted Rate Setting Policy. Adequate reserves and sound financial policies promote CCWD's bond ratings in the capital markets; provide financing flexibility; avoid potential restrictive debt covenants; and ensure the District's customers of stable rates. The Reserve Policy covers all reserve funds of the District. At the end of each fiscal year compliance with the Reserve Policy will be reported to the District's Board of Directors as part of each Fiscal Year-End Financial Report.

Reserve Fund Types

There are three major types of reserve funds: Legally Restricted Reserves, Board Designated Reserves and Unrestricted Reserves. Legally Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, etc. Board Designated Reserves are set aside for a specific purpose as determined by the Board of Directors. The Board of Directors has the authority to redirect the use of these reserves as the needs of the District change. Unrestricted Reserves are planned for use in each update to the Capital Improvement Program and Ten-Year Financial Plan to assist in providing for minimal orderly rate increases at or below inflation, consistent with the Board's Rate Setting Policy.

CCWD Reserve Fund Specific Purposes

Legally Restricted Reserves

- **Bond Reserve Fund:** This fund is governed by legal bond covenants for the District's revenue bonds. Bond covenants require that this fund be maintained at a level sufficient to fund maximum annual debt service payments. These funds are held by the bond trustee during
the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service obligation.

Reserve funds for each revenue bond issue will be used to make the last two semi-annual debt service payments for that issue. Annual interest earnings on bond reserve funds shall be applied to each year's debt service payments. Reserve funds related to state revolving fund loans shall be treated identically to revenue bond reserve funds as these loans are contractually defined as parity debt to the District's senior lien bonds.

- **United States Bureau of Reclamation (USBR) Reserve Fund**: This fund is required by the District's water service contract with the USBR to have a minimum balance of $1 million for the purpose of paying any annual obligation to the USBR. If the USBR reserve fund balance is drawn down below $1 million in a given fiscal year, the fund use must be reported to the USBR, and the balance must be returned to the $1 million minimum balance by the end of the same fiscal year.

This fund will be maintained at the minimum level of $1 million as long as the District's water service contract with the USBR requires such a fund. If the District's water service contract with the USBR is amended to exclude this reserve fund requirement, the fund balance shall be transferred to unrestricted reserves.

**Board Designated Reserves**

- **Rate Stabilization Reserve Fund**: This fund was established in accordance with the Master Bond Resolution adopted by the Board in October 1987. The purposes of the fund were to assist in smoothing rates to pay Los Vaqueros Project debt service and to assure that minimum debt service coverage ratios required by the District's bond covenants would be met in the future. Funds deposited into this reserve were treated as operating costs in the year of deposit and will be treated as revenues in years of use for the purposes of computing the District's debt service coverage ratio. The District's bond covenants and the Board of Directors’ rate policy specify that the District's coverage ratio must be at least 1.25 to 1 for senior lien debt. This fund is applied in the ten-year financial plan and annual rate model along with other reserve funds to smooth future rate increases. This fund is sufficient to provide for average bond coverage of 1.275 times over the term of the District's outstanding bonded and other parity debt. This is moderately higher than the minimum levels required, and provides a buffer should revenue estimates in any year not meet projections.

The Rate Stabilization Reserve Fund will be drawn down to smooth rate increases consistent with the District's Rate Setting Policy and to ensure that minimum debt service coverage of 1.25 times annual debt service is met. Specifically, they will be applied in any year where other revenues are not sufficient to meet the required debt service coverage ratio of 1.25 times. They will also be applied if meeting only minimum coverage levels could result in the District's bond ratings being downgraded.
• **Capital Improvement Reserve Fund**: This fund was established by the Board in FY94 to fund two years of revenue funded capital projects as planned in the Capital Improvement Program (CIP) and the two-year capital budget. The basis for funding two fiscal years is that the typical construction season for many capital projects span the spring and summer months, which fall into two fiscal years. This fund is applied in the ten-year financial plan and annual rate model along with other reserve funds to smooth future rate increases.

This fund will be drawn down annually as revenue capital expenditures are made. At the end of each fiscal year, the fund balance will be evaluated and replenished based on the next two years’ revenue funded capital requirements. Annual replenishment shall be reported to the Board of Directors as part of each Fiscal Year-End Financial Report.

• **Vehicle Replacement Fund**: This fund was established in FY89 to fund planned replacement of vehicles and heavy equipment that have reached the end of their useful lives. This fund is utilized to cover equipment replacement while smoothing cash flows in the ten-year financial plan and annual rate model to minimize annual pressure on rates.

This fund will be drawn down annually as replacement vehicles are purchased consistent with the adopted budget. At the end of each fiscal year, the fund balance will be replenished based on that year’s fleet depreciation. Annual replenishment shall be reported to the Board of Directors as part of each Fiscal Year-End Financial Report. In addition, interest earnings on fund balances will be deposited into the fund as will the net proceeds of the sale of replaced vehicles and equipment. These additional deposits are to provide for inflationary increases to replacement vehicle and equipment costs. This fund shall be maintained at a minimum balance of the funds required for the following year’s budgeted fleet replacements. The balance shall not exceed total accumulated depreciation for the fleet adjusted for inflation.

• **Future Water Supply Reserve Fund**: A portion of each charge for a new connection to the District’s system is designated for the purchase of new water supplies for both additional supply and improved supply reliability. The amount collected per new connection is based on the District’s adopted Future Water Supply Study. These funds are set aside in a designated reserve for future water purchases as necessary to meet demand reliably.

The designated future water supply component of every charge for a new connection will be deposited into this reserve fund. The growth element of this fund will be used to purchase future water supplies, options, transfers, etc., to ensure that sufficient supply is available to serve planned growth in the District’s service area. The reliability element may be used at the Board’s discretion to fund capital projects to improve water supply and/or quality reliability or to purchase water supplies aimed at improving reliability. Fund balances will be re-evaluated against future requirements following each update of the
Future Water Supply Study, and any proposed adjustments will be presented to the Board of Directors for consideration.

- **Seismic Reliability Improvement Program (SRIP) Reserve Fund**: A portion of each charge for a new connection to the District's system is designated to pay growth's share of debt service for those components of the SRIP that provide additional capacity for growth, principally the Multi-Purpose Pipeline project. The amount collected per new connection is based on the SRIP study. Long-term debt for the program's projects has been issued as of August 2003, with the exception of the raw water pipeline, which is planned for construction in 2015.

This fund will be used to supplement each year's annual connection fees collected for paying SRIP debt service to fully cover growth's share of annual debt service until the fund is exhausted.

- **Self-Insurance Reserve Fund**: This fund was established to pay extraordinary liability claims and/or workers’ compensation costs up to deductible levels specified in the District's insurance policies. Based on advice from the District's insurance broker, the fund was set to cover five claims of $250,000, for a minimum balance of $1,250,000. This level of funding was reaffirmed in a 2004 analysis based on the District's self-insured retention or deductible per claim for general liability, employment practices and property claims.

This fund will be maintained at a level of $1,250,000 million to provide for extraordinary liability and/or workers’ compensation costs exceeding any year's initial adopted budget for those costs. Use of these funds would require an approved budget transfer consistent with budget transfer authority levels determined by the Board of Directors. If funds are transferred in a given year resulting in a fund balance of less than $1,250,000 at year-end, the fund will be replenished annually from unrestricted reserves to a balance of $1,250,000 and reported to the Board of Directors as part of the Fiscal Year-End Financial Report.

- **Los Vaqueros Commitments Reserve Fund**: This fund was established in FY97 to provide for contractual obligations to potentially repair land-slide damage to Vasco Road or relocate Los Vaqueros Project facilities. It was funded at $2,442,000 based on the contractual cap with Contra Costa County for slide repairs. Although the slide repair obligation expired in November 2004, the District has additional contractual obligations related to the Los Vaqueros Project, such as potential pipeline relocations at the District's cost should County roadways be relocated in the future. The existing fund balance will be retained in the event any of these obligations are triggered.
This reserve fund will pay for any costs resulting from contractual obligations related to the Los Vaqueros project. As these obligations expire or are required to be implemented, the fund balance will be evaluated, and any proposed changes will be presented to the Board for consideration.

- **Sacramento/EBMUD Mitigation Reserve Fund**: This reserve fund will provide funding for wheeling up to 3,200 acre-feet per year of the District’s Central Valley Project water allocation through East Bay Municipal Utility District raw water facilities to meet the District’s source water quality needs beginning in approximately the year 2010.

This reserve fund will initially be funded at $1,290,000, and all funds received as a result of the District’s settlement related to the Sacramento Regional Growth Project shall be deposited to this fund. It will be maintained at a level sufficient to fund three to five years of wheeling charges to the East Bay Municipal Utility District for use of its raw water facilities to transport up to 3,200 acre feet annually of the District’s Central Valley Project water allocation.

- **Clean Water Act Reserve Fund**: In FY90 the District received a low-interest loan to pay for a portion of the improvements in the Castlerock and Northgate Assessment Districts. The loan proceeds has been set aside for low-interest loans to assist property owners living within those assessment districts’ zone of benefits to by into the assessment districts.

These funds will continue to be used to assist property owners within the Castlerock and Northgate Assessment District to buy into those assessment districts until the funds are exhausted. They will not be replenished from other District reserves.

**Unrestricted Undesignated Reserves**

Unrestricted reserves will be drawn down over time to smooth rate increases and will be maintained at a minimum balance of six months of annual operating budget requirements, consistent with the Board’s Rate Setting Policy.
Sample Reserve Policy #3

**Eastern Municipal Water District**

**Summary of Reserves/Funds by Category**

**OPERATING FUNDS** include the District’s working capital which is held in the “General Fund”. Additionally, within this fund are reserves established to support various activities. These reserves include the Restricted Operating Bond Covenant Fund; Water Rate Stabilization Reserve; Readiness-to-Serve Reserve; Operational Debt Service Reserve; Research and Development Reserve; and Capital Replacement Reserve.

**CONSTRUCTION FUNDS** are designated to pay the preliminary and construction costs of the District’s on-going Capital Improvement Program. These funds are segregated into restricted (developer funded) and unrestricted (non-operating revenue funded). The restricted funds include the Restricted Wastewater Treatment Plant Expansion Fund; Restricted Recycled Water Expansion Fund; Restricted Sewer System Expansion Fund; Restricted Water Tank Fund; and the Restricted Water System Expansion Fund. All other non-expansion related projects will be funded from the Water Replacement & System Betterment Construction Reserve or Sewer Replacement & System Betterment Construction Reserve.

**DEBT SERVICE FUNDS** are used to pay the principal and interest on the District’s debt (currently general obligation bonds and revenue bonds). The revenue bond reserve funds are required under bond covenants and provide additional payment security to bondholders.

**TRUST AND OTHER FUNDS** includes Assessment Districts, Employee Vacation and Sick Leave liabilities, and other restricted funds held for specific purposes.

Description of Currently Active Restricted Funds/Reserves of the District by Fund Category:

**Operating Fund:**

*General Fund (unallocated)*
This fund contains all operating and non-operating revenues not specifically allocable to other funds which may be used for general purposes of the District. All operating and non-operating expenses identified in the budget are financed from this fund.

**Recommendation**
Maintain a minimum balance equal to 5% of the total operating fund. This fund balance will fluctuate from month to month. However, the year end objective is to achieve this ending balance.
Restricted Operating Bond Covenant Fund (Acct 36200)
This fund was established by Resolution No. 2667, March 20, 1991, “The Master Resolution” and referred to as the “Operating Reserve”. This fund shall, at a minimum, contain 1/4 of the maintenance and operating costs as approved in the then current operating budget. (i.e. 90 days)

Recommendation
The fund balance shall be maintained at the 90 day minimum requirement, unless specifically increased by Board action. Any funds in excess of requirements for the then ended fiscal year are to be transferred to the Replacement & System Betterment Construction Reserve or General Fund.

Water Rate Stabilization Reserve (Acct 36000)
This reserve was established by Resolution No. 2667, March 20, 1991, “The Master Resolution” and referred to as the “Rate Stabilization Fund”. This reserve is for the principal purpose of mitigating against extraordinary rate increases from the Metropolitan Water District (MWD).

Recommendation
This reserve shall be maintained at a level not to exceed 32% (which represents a 90% probability of a 16% rate increase in each of two consecutive years) of the cost of water provided by the MWD in the then current operating budget. Any excess revenues generated from the water rate for this reserve shall be transferred to the Water Replacement & System Betterment Construction Reserve, unless prior Board action is given to utilize for other purposes.

Readiness-To-Serve Reserve (Acct 36010)
This reserve was established by Resolution No. 3124 on February 22, 1995. The purpose of this reserve was to accumulate credits/charges from the MWD as a result of the Standby Assessments collected by MWD on behalf of EMWD and used to pay the annual R-T-S charge.

Recommendation
Continue to utilize the reserve balance to offset the R-T-S charges until such time as the reserve is depleted, then incorporate charge into the water rates.

Operational Debt Service Reserve (Acct 34300)
This reserve was established by Resolution No. 2946 on November 4, 1992 as part of the Water Rates Policy. The purpose of this reserve is to accumulate revenue from the water rates to be used to pay semi-annual/annual debt service on certain loan obligations intended to benefit long term water supply.

Recommendation
Continue to collect revenues established in the current water rates but pool into a single reserve account without regard to specific water related loan obligations. The balance at all times should at a minimum represent the accrued principal and interest obligations and at
a maximum represent one year=s annual principal and interest payment for all obligations. Any excess shall be transferred to the General District’s Replacement & System Betterment Construction Reserve and/or Capital Replacement Reserve prior to the end of each fiscal year end.

**Research and Development Reserve (Acct 36100)**

This reserve was established by Resolution No. 2946 on November 4, 1992 as part of the Water Rates Policy. The purpose of this reserve is to accumulate revenue from the water rates to be used to fund investigations and evaluations of potential water resources and/or preservation of existing sources.

**Recommendation**

Continue to collect revenues established in the current water rates until the reserve reaches $2,000,000. Any excess shall be transferred to the General District’s Replacement & System Betterment Construction Reserve and/or Capital Replacement Reserve prior to the end of each fiscal year end.

**Capital Replacement Reserve (Acct 36250)**

This reserve was established by Resolution No. 3359 on August 18, 1999. The purpose is to provide funds for the replacement of capital equipment primarily related to computer hardware and software due to the increasing pace of technology.

**Recommendation**

Continue to fund this reserve from non-operating revenues to be used to fund computer hardware and software replacements/upgrades and any other unanticipated capital replacements necessary to continue operations. The reserve shall continue to reach a target equal to 25% of the original capital cost of computer hardware and software as reported in the District’s financial reports. At a minimum, the balance at the end of each fiscal year shall not be less than $500,000.

**CONSTRUCTION FUNDS**

**Restricted New Construction Fund (Accts 34100, 34110, 34170, 34200, 34210)**

These funds were established as a requirement of the California Government Code 66000 et.seq to segregate funds received from developers for infrastructure necessary to provide service. The funds include Restricted Wastewater Treatment Plant Expansion Fund (Acct 34100); Restricted Recycled Water Expansion Fund (Acct 34110); Restricted Water Tank Fund (Acct 34200); Restricted Sewer System Expansion Fund (Acct 34170); and the Restricted Water System Expansion Fund (Acct 34210).

**Recommendation**

Continue to segregate as required by statute.
Restricted 1993A COP Construction Fund (Acct 11510)
These funds were established from the proceeds of the 1993A Certificates of Participation Bond sale. The purpose is to fund water and/or recycled water projects. This account is restricted per bond documents.

Recommendation
Continue to maintain as required by bond documents

Restricted 2001B COP Construction Fund (Acct 11524)
These funds were established from the proceeds of the 2001B Certificates of Participation Bond sale. The purpose is to fund water, sewer and recycled water projects. This account is restricted per bond documents.

Recommendation
Continue to maintain as required by bond documents

Replacement & System Betterment Construction Reserve (Acct 35100)
This reserve was established by Resolution No. 3359 on August 18, 1999. The purpose is to provide funding to meet the District's Capital Improvement Program and other unplanned projects as necessary to maintain service to the existing customers being served. The source of revenue is the non-operating revenue with the exception of $25/af collected on the water bills from customers receiving imported water.

Recommendation
Continue to fund from the same non-operating sources per the annual budget and the $/af included in the retail water rate and/or sewer rate.

DEBT SERVICE FUNDS

Installment Payments Fund
This restricted fund is required under the Certificates of Participation bond documents and accumulates all accrued debt service payments until transferred to the bond trustee for payments to the bond holders.

Recommendation
Continue to maintain as required by bond documents.

Debt Service Reserve Fund
This restricted fund is required under the Certificates of Participation bond documents and is to be used for the payment of interest and principal in the event that the trustee has not received sufficient funds from the Installment Payments Fund to make the required payments. This fund will be retained until the final maturity date for each respective bond issue.
**Recommendation**
Continue to maintain as required by bond documents.

**Restricted General Obligation Bond Funds (Acct 11320)**
All proceeds from the annual ad valorem tax and delinquency payments from the county shall be deposited into this fund for the sole purpose of paying General Obligation Bond principal and interest payments. Rates are to be evaluated annually and adjusted to ensure that obligations are satisfied. After the final bond payment for a particular improvement district has been made, any remaining funds in the account are to be transferred to the respective service area=s Replacement & System Betterment Construction Reserve.

**Recommendation**
Continue current policy.

**TRUST AND OTHER FUNDS**

**Restricted Assessment District Funds**
The District maintains separate trust funds for each Assessment Districts that has outstanding obligations. These funds are restricted by law and are intended for the sole purpose of paying the annual obligations of the specific assessment district.

**Recommendation**
Continue current policy.

Employee Vacation Trust Fund (Acct 29200)
The purpose of this trust fund is to accumulate the funds required to meet the vacation requirements of the District’s active employees. The balance in the fund represents 100% of this liability and is adjusted on a quarterly basis, due to changes in employee salaries.

**Recommendation**
Continue current policy.

Employee Sick Leave Trust Fund (Acct 29210)
The purpose of this trust fund is to accumulate the funds required to meet the sick leave requirements of the District’s active employees. The balance in the fund represents 100% of this liability and is adjusted on a quarterly basis, due to changes in employee salaries.

**Recommendation**
Continue current policy.
**General Liability Reserve (Acct 22400 & 36330)**
The reserve was last amended by Minute Order M-237/94 on July 6, 1994. The purpose is to provide a self-insurance reserve reserve pool for unanticipated liability claims. The established limit is $2,000,000 and the District purchases excess insurance above the $2,000,000.

**Recommendation**  
Continue current policy

**Workers Compensation Reserve (Acct 22450 & 36310)**  
This reserve was amended by Resolution No. 3359 on August 18, 1999 and established limits on the reserve to equal the average of the prior three years' actual experience at each fiscal year end.

**Recommendation**  
At each fiscal year end, this reserve shall equal the average of the prior three years' actual experience less the current fiscal year's accrued liability reported in account 22450. If the average is less than the accrued liability, no reserve is required.

**General Damage Reserve (Acct 22460 & 36320)**  
This reserve was formally included in Resolution No. 3359 on December 19, 2001. Its purpose is to identify potential claims against the District and set aside a reserve for unanticipated claims. At each fiscal year end, this reserve shall equal the average of the prior three years' actual experience less the current fiscal year's accrued liability reported in account 22460. If the average is less than the accrued liability, no reserve is required.

**Recommendation**  
Continue current policy.

**Dental Reserve (Acct 22465 & 36340)**  
This reserve was formally included in Resolution No. 3359 on December 19, 2001. Its purpose is to identify potential outstanding dental claims not yet received. At each fiscal year end, this reserve shall equal the average of the prior three months actual experience less the current fiscal year's accrued liability reported in account 22465. If the average is less than the accrued liability, no reserve is required.

**Recommendation**  
Continue current policy.
South Tahoe Public Utility District

Reserve Policy

PURPOSE

South Tahoe Public Utility District (the District) shall maintain reserve funds in the Sewer and Water Enterprise Funds. This policy establishes the level of reserves necessary for maintaining the District's credit worthiness and for adequately providing for:

- Funding infrastructure replacement.
- Economic uncertainties and other financial hardships.
- Loss of significant revenue sources such as property tax receipts or connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.

POLICY

Operating Reserves
The minimum amount of operating reserves will equal two months of operating expenses. The maximum amount of operating reserves will equal three months of operating expenses.

Capital Reserves
Capital reserves will be accumulated to fund infrastructure projects and will be an integral part of the District's capital plan documented in its Ten-Year Forecast. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense. The minimum amount of capital reserves will equal one year's capital spending. The maximum amount of capital reserves will equal two times the accumulated depreciation balance.

Self-Insurance Reserves
The minimum self-insurance reserve will equal $300,000. The maximum self-insurance reserve will equal the current annual health insurance expense budget.

Rate Stabilization Fund
The Sewer Enterprise Fund will maintain a minimum rate stabilization fund equal to one year's property tax receipts and a maximum rate stabilization fund equal to one and one-half year's property tax receipts. Both the minimum and maximum amounts will be net of
related County of El Dorado's administration cost and shifts to the City of South Lake Tahoe's redevelopment agency.

The Water Enterprise Fund will not maintain a rate stabilization fund while the funds restricted from the MTBE settlements and judgments exceed $2 million. At such time as the MTBE settlement funds fall below $2 million, the District will establish a rate stabilization fund with a minimum amount equaling one year's water consumption revenue and a maximum amount equaling one and one-half year's water consumption revenue.

Procedure for Using Reserve Funds

Operating and Self-Insurance Reserves
Operating and self-insurance reserves can be used at any time to meet cash flow requirements of District operations. Authority to use the funds will be consistent with the District's Purchasing Policy.

Capital Reserves
The Board of Directors will authorize use of capital reserves during the budget process. Capital reserves are also available for unplanned (unbudgeted) capital replacement. Authorization for the use of capital reserves for unplanned capital replacement will be consistent with the District's Purchasing Policy.

Rate Stabilization Fund
The Chief Financial Officer is authorized to use rate stabilization funds to supplement operating revenue when:

- Total revenue in either the Sewer Enterprise Fund or the Water Enterprise Fund is projected to be five percent or more below the annual budgeted revenue.
- Developing the budget to limit customer rate increases to no more than two and one-half times the consumer price index for small west coast cities.

Procedure for Monitoring Reserve Levels

The Chief Financial Officer shall perform a reserve analysis to be submitted to the Board of Directors upon the occurrence of the following events:

- Board of Directors’ deliberation of the annual budget;
- Board of Directors’ deliberation of a service charge rate increase;
- Upon renewal of the self-insurance excess insurance coverage; or,
- When a major change in conditions threatens the reserve levels established within this policy.
If the analysis indicates projected or actual reserve levels falling 10% below or above the levels outlined in this policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level, and/or
- An identified course of action to bring reserve levels within the minimum and maximum levels prescribed.
Sample Reserve Policy #5

Valley Center Municipal Water District

Budget Policy Examples

Sec. 50.2 Budget Policies.

The following policies shall be followed both in preparing the annual budget and during the course of financial operations of the District.

(a) Reserves. Reserves are to be established and used as follows. Reserves may carry negative balances if it is probable that the deficits will be recovered within a reasonable time.

Reserves funds will not earn interest unless noted below.

The disposition of funds collected in excess of limits shown is at the discretion of the Board of Directors.

All reserves have specific funding sources except for the Operating and Master Plan reserves which will be funded in the order presented from accumulated net earnings.

1. Rate Stabilization Reserves:

A. Rate Stabilization Reserve: The District component of sales in excess of budgeted water sales and revenue collected for fixed charges in excess of those fixed expenses incurred shall be placed in a rate stabilization reserve to fill any deficit resulting from the water sales volume falling below projected budget figures. It could also be used to defer future increases in the District's component of the water commodity rate and fixed wholesale charges. Fixed wholesale charges include the Metropolitan Water District's Capacity Reservation Charge and the San Diego County Water Authority's Customer Service Charge and Emergency Storage Project Charge. The reserve shall be limited to no more than 50% of the District component of budgeted water sales and fixed wholesale charges.
B. Pumping Rate Stabilization Reserve: Pumping revenues in excess of the cost of electrical and natural gas power and the cost of the operation and maintenance of all pumping facilities shall be placed in this reserve to defer future increases in the pumping charge rates. The reserve shall be limited to no more than 50% of budgeted pump charge revenues. The reserve may also be used for the replacement of pump facilities with Board approval, provided that such use does not reduce the reserve below 25% of the annual budgeted pump charge revenue.

Per Ordinance No. 2005-02 Adopted 4/4/05 [Sec. 50.2(a)(1)(A)]
Per Ordinance No. 2000-04 Adopted 3/20/00 [Sec. 50.2, formerly Section 115.8]

2. Operating Reserve:

A. A reserve shall be established to provide funding for emergencies and natural disasters, such as fire, earthquake, flooding, etc. This reserve need not be funded in the budget, but the District shall endeavor to maintain this reserve at six months operations and maintenance budget (excluding wholesale water and power purchases).

3. Restricted Reserves:

A. Agricultural Rebate Reserve: This reserve consists of agricultural rebates of $234,201.50 received from the District’s certified agricultural customers prior to the District establishing a special agricultural rate and will be held for rebates to certified agricultural customers necessary in the event a supplier’s agricultural rate is terminated before the end of a billing cycle. It will also be available to cover costs associated when agricultural water sales volume exceeds the established agricultural wholesale allotment.

B. Debt Service Reserve: This reserve includes debt service taxes collected but not yet payable to debt holders, reserves required by debt agreements, and unexpended proceeds from debt issues, and will be used to fulfill debt requirements in accordance with debt covenants.
C. Replacement Reserves: Reserves for the asset categories listed below shall be established. Each reserve shall receive an annual budget appropriation in the amount of depreciation on the following assets plus an inflation factor (or interest allocation for sewer fund reserves). Proceeds from the sale of these assets shall also be credited to these reserves. These reserves may be used for the purchase of replacement of assets or facilities, but not for additional assets or increased capacity. The reserve shall not exceed the replacement value of the assets covered.

(1) Licensed Motor Vehicles
(2) Lower Moosa Canyon Water Reclamation Facility
(3) Skyline Ranch Sewer Treatment Plant (Funded in accordance with agreement with customer)

Per Ordinance No. 2005-02 Adopted 4/4/05 [Sec. 50.2(a)(2)(A)]
Per Ordinance No. 2005-02 Adopted 4/4/05 [Sec. 50.2(a)(3)(A)]
Per Ordinance No. 2004-02 Adopted 3/15/04 [Sec. 115.8(a)(2)(A)]

4. Capital Reserves:

A. Continuing Projects Reserves: Unexpended appropriations for capital projects which are not completed in a fiscal year will be carried forward to the following fiscal year.

B. Capacity Charges: Capacity charges shall be credited to the capacity charges reserve in accordance with state statute to provide funding for future capital projects. This reserve shall earn interest in accordance with state statute.

C. Capital Improvements Reserve: Availability charges not allocated to the readiness-to-serve charge and debt service, and interest income not otherwise allocated shall be credited to the capital improvements reserve to provide funding for future capital projects.

D. Master Plan System Improvements Reserve: The District maintains a Master Plan which outlines future facility additions and replacements. A reserve shall be established to fund the current estimated cost of all projects outlined in the Water Master Plan which are (1) not allocable to future demand, (2) not previously appropriated, (3) and not contingent on outside factors. This reserve shall be reduced by
the Capital Improvements Reserve and increased by inflation and contingency factors. This reserve shall be funded from retained earnings not reserved for other purposes.

E. Energy Efficiency Reserve: Funds received from energy company settlements are restricted for energy conservation projects and shall be credited to the energy efficiency reserve.

(b) Fees and Charges. Each water and sewer system ultimately shall be self-sufficient. Administrative costs incurred by the District shall be allocated to the each system in accordance with general practices and reimbursed to the general fund.

Interest earnings on cash held by the general fund for other funds shall be allocated to the respective funds annually.

In accordance with Section 160.3(g), all fees and charges for wholesale water and water related services shall be passed through to District customers by action of the Board of Directors.

(c) Debt. Any debt shall be issued in accordance with state law. Debt proceeds should be used only for capital projects which cannot be funded while maintaining reserve goals. Long-term debt shall not be used to fund current operating costs.

Debt issues should be limited to the amount needed for specific capital projects, shall not exceed the useful life of the capital project, and should not exceed an amount that can be supported by the existing and projected revenue base.

(d) Use of One-time and Unpredictable Revenues. One-time revenues, except when immaterial, should be allocated to the source of the revenue or refunded expenditure or, if not directly allocable, to the rate stabilization fund. Nonrecurring revenues shall not be used to initiate new programs which result in ongoing expenditures without specific notification to and approval by the Board of Directors.

Revenues which cannot be predicted, such as capacity fees, property taxes, and interest, should be forecast conservatively in the budget.

(e) Balancing the Operating Budget. Current operating expenditures shall be funded with current revenues. Reserves can be used to provide budgetary funding for the purposes for which the reserves were established as detailed above.
The adopted operating budget shall be prepared on the accrual basis of accounting. Depreciation is not funded in the budget except where required for individual reserves.

(f) **Revenue Diversification.** When rate increases are needed to cover District costs, other than wholesale pass through costs, consideration should be given to meeting at least 50% of the District's fixed operating expenditures with the monthly meter service charge and property taxes.

(g) **Contingencies.** Emergencies are addressed in Article 225.
Acknowledgements

Property Tax/Reserve Workgroup Members

Mr. Tim Anderson          Sonoma County Water Agency
Ms. Teresita T. Andrews    Nevada Irrigation District
Mr. Gary T. Arant          Valley Center Municipal Water District
Ms. Beth Beeman            Irvine Ranch Water District
Ms. Leslie Bonkowski       Irvine Ranch Water District
Ms. Kathy Cole             Metro Water District of Southern California
Mr. Daniel Cozad           Santa Ana Watershed Project Authority
Ms. Ane D. Deister         El Dorado Irrigation District
Mr. Glenn Farrel           East Bay Municipal Utilities District
Ms. Virginia Grebbien      Orange County Water District
Mr. Paul D. Jones, II       Irvine Ranch Water District
Mr. Terry Loomis           Irvine Ranch Water District
Ms. Julia Maclay           Santa Clara Valley Water District
Mr. Dan Masnada            Castaic Lake Water Agency
Ms. Rhonda McFarlane       South Tahoe Public Utilities District
Ms. Betty Megrey           Santa Margarita Water District
Mr. Peter Ng               Santa Clara Valley Water District
Mr. Pilar Onate            Metro WD of Southern California
Mr. Anthony J. Pack         Eastern Municipal Water District
Mr. Paul Piraino           Alameda County Water District
Ms. Valerie L. Pryor       Castaic Lake Water Agency
Mr. Charles Rathbone       Eastern Municipal Water District
Mr. Traci Rogers           Tulare Irrigation District
Mr. John J. Schatz         Santa Margarita Water District
Mr. Mike Solomon           United Water Conservation District
Mr. John Stovall           Kern County Water Agency
Ms. Anne Thompson          Santa Clara Valley Water District
Ms. Tammy Wagstaff         La Habra Heights County Water District
Mr. Ron E. Wildermuth      Orange County Water District
Mr. Stanley M. Williams    Santa Clara Valley Water District
Ms. Dee Zinke              Calleguas Municipal Water District

Other Credits:
Jennifer Persike, ACWA Director of Strategic Coordination / Public Affairs
ACWA Communications / Outreach Department
## ACWA Board of Directors – 2004-05 Term

<table>
<thead>
<tr>
<th>Role</th>
<th>Names</th>
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<tbody>
<tr>
<td>ACWA President</td>
<td>E. G. “Jerry” Gladbach, Castaic Lake Water Agency</td>
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<tr>
<td>ACWA Vice President</td>
<td>Randy Fiorini, Turlock Irrigation District</td>
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<tr>
<td>Immediate Affiliated Past President</td>
<td>Bette Boatmun, Contra Costa Water District</td>
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<tr>
<td>Region 1 Chair</td>
<td>Paul Kelley, Sonoma County Water Agency</td>
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<td>Region 1 Vice Chair</td>
<td>Bill Suppa, Burney Water District</td>
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<tr>
<td>Region 2 Chair</td>
<td>Sandy Denn, Glenn-Colusa Irrigation District</td>
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<tr>
<td>Region 2 Vice Chair</td>
<td>Roger Sherrill, Rio Alto Water District</td>
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<tr>
<td>Region 3 Chair</td>
<td>Louise Giersch, Tuolumne Utilities District</td>
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<tr>
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<td>Ane Deister, El Dorado Irrigation District</td>
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<tr>
<td>Region 4 Chair</td>
<td>Mike Hardesty, Reclamation District #2068</td>
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<td>Ed Winkler, Regional Water Authority</td>
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<tr>
<td>Region 5 Chair</td>
<td>Katy Foulkes, East Bay Municipal Utility District</td>
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<td>Jan Abel, Montecito Water District</td>
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<td>Ron Pistoiresi, Madera Irrigation District</td>
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<tr>
<td>Region 6 Vice Chair</td>
<td>Don Mills, Lakeside Irrigation Water District</td>
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<tr>
<td>Region 7 Chair</td>
<td>Brent Graham, Tulare Lake Basin Water Storage District</td>
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<tr>
<td>Region 7 Vice Chair</td>
<td>J. Paul Hendrix, Tulare Irrigation District</td>
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<tr>
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<td>Donald Hauser, Calleguas Municipal Water District</td>
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<td>Region 8 Vice Chair</td>
<td>Ralph Bolles, La Habra Heights County Water District</td>
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<tr>
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<td>Brad Luckey, Imperial Irrigation District</td>
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<tr>
<td>Region 9 Vice Chair</td>
<td>Joe Kuebler, Eastern Municipal Water District</td>
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<tr>
<td>Region 10 Chair</td>
<td>Merle Aleshire, Valley Center Municipal Water District</td>
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<tr>
<td>Region 10 Vice Chair</td>
<td>Trudy Ohlig-Hall, Mesa Consolidated Water District</td>
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<tr>
<td>Communications Committee Chair</td>
<td>Gary Arant, Valley Center Municipal Water District</td>
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<tr>
<td>Federal Affairs Committee Chair</td>
<td>Glen Peterson, Metropolitan Water District of So. CA</td>
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<tr>
<td>Finance Committee Chair</td>
<td>Mike Solomon, United Water Conservation District</td>
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<tr>
<td>Insurance &amp; Personnel Committee Chair</td>
<td>Dale Mason, Vallecitos Water District</td>
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<tr>
<td>Local Government Committee Chair</td>
<td>Dave Breninger, Placer County Water Agency</td>
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<tr>
<td>State Legislative Committee Chair</td>
<td>Jess Senecal, Lagerlof, Senecal, Bradley, Gosney et al</td>
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<tr>
<td>Water Management Committee Chair</td>
<td>Greg Zlotnick, Santa Clara Valley Water District</td>
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<tr>
<td>Water Quality Committee Chair</td>
<td>Sarge Green, Tranquility Irrigation District</td>
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<tr>
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<tr>
<td>Affiliate Representative</td>
<td>Robert Gomperz, Lincoln Avenue Water Company</td>
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October 10, 2016

The Little Hoover Commission
Chairman Pedro Nava
925 L Street, Suite 805
Sacramento, CA  95814

Dear Chairman Nava:

We appreciate the opportunity to submit written comments to the Little Hoover Commission in advance of the October 27, 2016 second hearing of the Special Districts Study:

**Origins and evolution of the Association**
ACWA is the largest statewide association of water agencies in the country, representing about 430 public water agencies, including special districts, throughout the state that provide 90 percent of the water delivered to communities, farms and businesses. The Association was formed in 1910 by five irrigation districts seeking to address common needs. First known as the Irrigation Districts Association, members voted in 1973 to change the name to the Association of California Water Agencies to reflect the addition of urban water agencies to the original agricultural water districts.

**Membership**
ACWA represents a broad base of public agencies including: municipal water districts, irrigation districts, county water agencies, community service districts, flood control districts and others. Our members are on the front lines of service delivery for local communities throughout California.

**General principles advocating for sound water policy and the interests of our members**
ACWA engages on an array of legislative and regulatory issues to promote a more reliable and sustainable water system. ACWA also works hard to assist its members as they implement local resource programs and respond to challenges such as climate change.

ACWA is actively working to advance the following policy goals:

- Comprehensive solutions to improve water supply reliability for all regions of the state
- Implementation of the Sustainable Groundwater Management Act in a way that is consistent with the California Water Action Plan
- Development of 21st century water storage projects that accomplish the co-equal goals of water supply reliability and ecosystem health
- Protection of our headwaters
- Investment in local resource development programs such as water use efficiency, water recycling, groundwater storage and management, and technologies such as desalination
• Preparing for climate change

**ACWA’s role within the world of water development, use and politics**

ACWA is the leading voice for water policy in the state of California, not only because of its diverse membership, but also for the breadth of the issues the Association engages on. Our governance structure, with both policy and regional committees, gives the Association first-hand, on-the-ground practical knowledge of water policy and infrastructure challenges. Using this knowledge, ACWA works hard on the regulatory and legislative levels to advocate for strengthening California’s water system and adopting policies to ensure a healthy water delivery system.

For example, ACWA’s advocacy work has been critical during the drought. ACWA members are on the frontlines of the drought, providing tools and outreach to help local communities conserve, and planning for reliable water delivery in the present and future. ACWA has played a key role in developing resources to help its member agencies message conservation to their customers and communicating to state leaders the best approach to developing regulations to achieve the most effective, locally-tailored conservation programs.

**Overview of emerging and anticipated climate challenges to the operations of water districts**

Climate change could profoundly impact California’s water supply picture, but local water agencies are actively working to plan for and adapt to expected changes. Warmer temperatures, changing precipitation and runoff patterns, as well as reduced snowpack and rising sea levels will impact everything from groundwater recharge to future water supply estimates to flood protection and stormwater runoff.

Water agencies have been ahead of the climate change curve for several years. Adapting to climate change is only one of several significant challenges that water agencies have faced in the last decade, including preparing for and coping with the historic drought, incorporating expensive regulatory requirements, planning for California’s expanding population, updating aging infrastructure, and complying with ever-changing water quality requirements.

Thanks to years of planning and significant investments in local drought-resilient water supplies and improvements in water use efficiency, California’s public water agencies are better prepared for multiyear droughts today than any time in our history. After the drought of the early 1990s, local water agencies spent more than $20 billion investing in strategies such as water recycling, brackish groundwater desalination and local and regional storage projects that have dramatically improved our ability to stretch supplies, withstand droughts and prepare for the new normal associated with climate change. In addition, water agencies have steadily brought demand down through ongoing water efficiency education and outreach, water use audits, rebates for efficient appliances, and incentives to replace thirsty lawns.

These investments in drought preparedness are a key reason that California’s economy has remained relatively unscathed through five years of drought. They are also a key reason that last year’s state-
mandated conservation targets have been replaced with locally determined measures based on a “stress test” approach in which many urban water suppliers have certified they are drought-prepared in the event of three more dry years. Water agencies are following a similar model with respect to climate change adaptation. Since the impacts of climate change are likely to vary throughout the state, local agencies are in the best position to determine the combination of planning and investment they need to remain drought-resilient and prepare their facilities and operations for changes on the horizon.

To the naked eye, the effects of climate change may not have been apparent a decade ago when Assembly Bill 32, the California Global Warming Solutions Act, was first signed into law. But its effects are being felt today, primarily in observable changes to rain and snowfall patterns in the Sierra Nevada. The Sierra snowpack, often referred to California’s largest natural reservoir, already shows signs of significant reduction as more winter precipitation falls as rain rather than snow. Models also predict more intense rainfall events, presenting flood protection challenges and impacting the ability of existing surface water reservoirs and groundwater basins to capture and hold water supplies to meet needs with the same effectiveness as they did under past hydrological patterns.

**Actions being taken by water districts to assess their climate change vulnerability and adapt**

Since the drought of the early 1990s, ACWA’s member agencies have made tremendous strides in diversifying their water supply portfolios to reduce demands for imported water and prepare for multiyear droughts. As a statewide organization, ACWA has taken a strong policy position in support of local resources development including water recycling – indirect and direct potable reuse – conservation, desalination, groundwater recharge, above-ground storage, and targeted water transfers. All of these strategies will need to be utilized into the future and water suppliers are building that future now. For instance, Nevada Irrigation District, serving Nevada, Placer, and Yuba counties, is diversifying its water supply through its Centennial Reservoir Project. This project will allow NID to develop lower elevation storage that can capture rain and snow runoff that it cannot currently capture, providing a local, reliable and safe water supply augmentation. The majority of NID’s water goes to agricultural uses, mostly small farms and ranches. Farmers and ranchers need this additional water storage to continue to sustainably produce local food. This project will use the most advanced science and technology available, including new approaches to wildlife and habitat protection.

Urban water suppliers are required to prepare and submit comprehensive urban water management plans to the Department of Water Resources (DWR) every five years. These plans support long-term resource planning to meet current and future water demands, and must include assessments of the anticipated effects of climate change on water supply reliability. Many water agencies have taken decisive actions to formally assess their local climate change vulnerabilities and implement projects to reduce greenhouse gas emissions, address the water energy nexus, and invest in more resilient water management infrastructure. Since about 2000, water agencies, state and local governments, and water stakeholders have collaborated to prepare and implement integrated regional water management (IRWM) planning programs to identify solutions and maintain water reliability in the face of climate change. Statewide, hundreds of millions of dollars of Proposition 50 and Proposition 84 General
Obligation water bond funds have been leveraged with local funds for IRWMP projects that have contributed to climate change adaptation and bolstered water supply reliability.

ACWA also is working to ensure that climate change is appropriately addressed when the most recent General Obligation Water Bond Proposition 1 funds are allocated. Approved overwhelmingly by California voters in November 2014, Proposition 1 authorized $7.5 billion in bond funding for investments in water projects and programs including water conservation, recycling, groundwater clean-up, and water storage. Prop. 1 leverages additional local and regional funds to provide a total investment of approximately $25 billion to address California’s water needs. The state agencies tasked with administering the competitive grant and loan programs are developing and finalizing guidelines for soliciting and evaluating project proposals, including consideration of climate change analyses. ACWA is diligently reviewing and submitting comments on many of these guidelines as they are being developed.

As water agency climate assessments are conducted, some indicate the need for immediate actions, even if threats may not become critical for several years. Through frequent evaluations and long-term planning, ACWA member agencies already have invested in a variety of projects to conserve water, reduce dependence on imported suppliers, increase recycled water supply, and provide protection from a rising ocean and inland flooding. For example, to promote water conservation, the Metropolitan Water District of Southern California has invested more than $450 million over the last two fiscal years at the local level in response to the five-year historic drought. Metropolitan’s program included rebates for outdoor turf removal and installation of indoor water-efficient appliances. This conservation program is one of many tools to fight future shortages.

Also in Southern California, San Diego County Water Authority is working to enhance the region’s water supply reliability to help meet regional needs for climate adaptation and reduce dependence on imported water supplies that may be impacted by climate change conditions. The SDCWA San Vicente Reservoir raise project completed in 2014 has helped create 100,000 acre-feet of new local capacity to store water during wet years so it will be available during future dry cycles. The Carlsbad Desalination Project, completed in 2015, also adds up to 56,000 acre-feet a year of new, local, drought-resilient supplies to help the region rely less on imported water.

Padre Dam Municipal Water District is one of several California water agencies developing advanced water purification systems to convert wastewater to a reusable potable water supply. Intended to increase the district’s drought resiliency and reduce its dependence on imported water, the project will capture treated effluent, purify it to meet public health standards as drinking water, and return it to the local groundwater basin or reservoir. The blended water will be retrieved and treated a final time, then distributed as drinking water. The project is in a pilot phase, with a demonstration plant producing 100,000 gallons of purified water per day. Purification includes free chlorine disinfection, membrane filtration, reverse osmosis and advanced oxidation. Phases I and II are planned to produce 2.2 – 3.5 million gallons daily by 2020, up to 10.5 million gallons daily by 2025. The final cost of drinking water is projected to be competitive with imported water by 2020.
In the face of climate change, balancing demand on the electrical grid is a crucial strategy to avoid excessive peak loads that require burning fossil fuels to boost the supply. The Irvine Ranch Water District, in partnership with Advanced Microgrid Solutions, is implementing a networked system of large Tesla batteries enabling the district to store energy during off-peak hours and use it to supplement its supply during times of peak demand. The 7 MW / 34 MWh network will operate in 11 of the district’s facilities, from water treatment plants to high-energy pumping stations, and will allow the district to comply with Demand Response Events – requests from Southern California Edison to reduce demand during excessive peak usage periods – without interrupting water treatment operations. In addition to reducing peak demand, the battery network is expected to reduce the district’s carbon footprint and save more than $500,000 per year.

The Sonoma County Water Agency is another water district utilizing innovation to adapt to climate change. SCWA is working with consulting firm CH2M to prepare a comprehensive climate vulnerability assessment and adaptation plan to create a road map for the water agency to follow as it prepares its facilities and operations for climate change. Over the past several years, SCWA has been actively participating in several climate science efforts in collaboration with various research agencies, including the United States Geologic Survey, Scripps Institute of Oceanography Center for Western Weather and Water Extremes, and the National Oceanic and Atmospheric Administration (NOAA). These efforts have resulted in improved understanding of regional climate threats. Identified risks include increasing temperature, variable precipitation, droughts, flooding, wildfires, and sea-level rise. The plan will address the agency’s water supply, flood control and sanitation enterprises. It also will position the agency to be eligible for federal grants related to climate change adaptation. A draft plan is scheduled to be completed in fall 2017.

**Overview of the role of infrastructure financing to achieve our level of response to climate change**

ACWA’s member agencies use a diverse mix of funding to pay for all of these different types of infrastructure, water supply diversification, and water conservation projects. Water agencies utilize their share of the 1 percent ad valorem property tax, ratepayer dollars, dedicated reserve funds, federal monies, state and federal grants, state General Fund, state General Obligation Bonds, and revenue bonds to varying degrees depending upon the type, size, and cost of the project and the district’s overall infrastructure plan.

Water agencies engaging in climate change planning must think carefully and thoughtfully about the right combination of funding to achieve a stable and reliable financing portfolio. Smaller projects often use a combination of general fund dollars, state grants, and local ratepayer funds, for example. Bigger projects more likely utilize larger dollar amount General Obligation Bond funds, and designated or obligated reserve funds put aside specifically for new capital construction, including many climate change adaptation projects. Just as a family household puts away money in a savings account to purchase a new automatic dishwasher when the old one breaks, a water agency will set aside funds in a designated reserve fund for a specific project — for instance, a water storage project, which could cost hundreds of millions of dollars. The funding is responsibly and separately saved for future use.
It’s instructive to note that water agencies maintain three types of reserves:

- **Restricted Funds** – These are funds that water agencies are mandated to hold in reserve to satisfy terms of bond covenants, pension plan obligations, and service deposits.

- **Obligated Funds** – These are funds that agencies have set aside to meet the contractual financial commitments they’ve entered into for future services and purchases. These include services such as engineering or construction contracts on long-term projects or replacement costs for waterlines in developments for which the agency has entered into service agreements.

- **Designated Funds** – These are funds that are held in reserve for new capital construction or refurbishment of aging pipes and infrastructure, or for handling emergency repairs or water quality emergencies. These funds are particularly critical to stabilizing customer rates because they help shield customers from sudden, unexpected cost increases.

Most of the money held in reserves by water agencies is legally encumbered to pay bonds, loans, and other commitments. It is set aside “in reserve” to pay ongoing bills, new facilities, repairs, and for emergencies. If water agencies are unable to accumulate reasonable reserves, or if their reserves become depleted, needed repairs won’t happen, or will be delayed, new facilities with new technologies won’t be built, and there will not be money set aside to cover unexpected emergencies or spikes in operating costs like increases in energy bills. Inadequate reserves leads to lower bond ratings and therefore higher bond costs for water agencies and their customers. Climate change projects are treated the same as any other type of infrastructure project from the water agency’s planning perspective.

Water agency customers have indicated that they want their local financial resources, including reserve funds, used to pay for their services locally. In fact, the majority of funding for water in California is derived from the water districts themselves. The Public Policy Institute of California (PPIC) noted in their white paper from last year entitled, “Successful Water Management Requires Adequate, Reliable Funding” that “Local revenue, from water and sewer bills to taxes, provides the lion’s share at 84 percent. The state (through the general fund and general obligation bonds) contributes 12 percent and the federal government 4 percent” Our member agencies collectively would not have been able to attain, and then maintain, the 84 percent level noted above without methodical planning accompanying appropriate levels of reserve funds.
Reserves, in particular, are a key funding component for water agencies. The ability to maintain reasonable reserves is a critical factor in providing reliable service, mitigating rate increases, and to support an agency’s overall financial strength. Reserve levels directly affect an agency’s bond rating, and ultimately its ability to access debt markets at favorable interest rates, ensuring the ability to finance and construct the infrastructure necessary to renew existing systems and expand service levels to meet future needs.

Fitch Ratings, one of the big three credit rating agencies designated by the U.S. Securities and Exchange Commission, expressed their opinion that “Highly rated utilities set goals for appropriate financial margins and reserve funding (such as rate stabilization, repair and rehabilitation, and operating reserves) in their Water and Sewer Revenue Bond Rating Guidelines, August 2008.

**Barriers and challenges for obtaining support to make long-term investments now for uncertain climate threats later**

The passage of Proposition 140 in 1990 ushered in a new era of challenges for political support for long-term investments in projects and infrastructure. Prior to state legislative term limits, long-term legislators and their staff were subject matter experts who didn’t require convincing that investments needed to be made in infrastructure projects that would come online years in the future. Now, it is more challenging to get legislators to look far into the future when term limits keep them in Sacramento for just six years in the Assembly or eight years in the Senate. (Some members may stay as long as 12 years if they serve in both houses.) These shorter Capitol careers pose challenges in getting elected officials and staff to look out at 40-year timeline horizons. It could take decades to get a large water storage
reservoir built. Some legislators find it easier and more attractive to solve short-term problems with tangible solutions that someone can point to, than tackle longer term projects that won’t come online for decades. As the largest association of statewide water agencies in California, ACWA frequently educates newly elected legislators and their personal staffs, along with new policy committee staff, about the long-term needs and realities of water resource planning, including climate change adaptation. That includes not only briefings and meetings, but when possible on-the-ground tours of facilities and operations so that policy makers in Sacramento have a much better understanding of what we need and what it takes to maintain reliable water delivery in California.

How members engage and educate customers in these policy discussions
Many of ACWA’s members are taking a proactive role in educating their customers about the impacts of climate change. For example, the Sonoma County Water Agency, in addition to developing its extensive climate assessment plan, also has been working on the regional level within a partnership to develop a climate change online “dashboard.” The dashboard integrates locally specific climate change impacts and projections based on data gleaned from various scientific agencies, environmental non-profits and agricultural groups, then displays it on an interactive website. The dashboard allows the public to look at their area and see the specific impacts of climate change now and in the projected future increasing the opportunity to engage water district customers on this issue.

Community outreach and education is a key focus of water agencies in our state. Water agencies strive for inclusive dialog, and work with various stakeholder groups to partner to get the message out to the larger community about relevant water issues such as conservation and climate change.

For example, Sacramento Suburban Water District, in the Sacramento Valley of Northern California, works diligently to promote customer awareness of district activities and programs. As part of that effort, the district schedules Community Outreach Days several times a year at various locations in SSWD’s service area. These events provide their customers an opportunity to ask questions and meet with district staff out in their service territory. Conservation materials and educational displays are an integral part of this outreach effort into the community.

In Southern California, San Diego County Water Authority’s Citizens’ Water Academy is in its third year of operation. The academy is focused on educating future leaders on where their water comes from, how it gets there, and the future challenges of ensuring continued supply. The academy is composed of two weekday classroom sessions and one weekend classroom session as well as facilities tours. There is no tuition, fee, or charge to apply to or attend the academy.

Many other water agencies throughout the state also are creatively reaching out to the communities they serve, informing and educating customers in order to build community support and understanding for the mission of water agencies in California.

Overview of potential regional solutions to continue supply diversification efforts
Water agencies historically have worked cooperatively to manage water supplies and to anticipate climate change. Many water agencies within the same region also have worked collaboratively to manage groundwater basins that share an existing supply.

The North Valley Regional Recycled Water Program, launched by the Del Puerto Water District, is another example of a regional project that will build local supply. The project, when completed, will add up to 59,000 acre-feet a year of new local supply for agricultural water users of DPWD. The project is a collaborative partnership among the Central Valley cities of Modesto, Turlock and Ceres, DPWD and Stanislaus County. It also received some federal and state funding. At build-out, NVRRWP will provide treated recycled water that is conveyed by the cities of Turlock and Modesto to the Delta-Mendota Canal. The water will then be conveyed directly to DPWD for irrigation use. Through an agreement with the U.S. Bureau of Reclamation, the project also will provide supplemental water to some wildlife refuges located south of the Delta. Some local growers have already agreed to purchase the recycled water.

Soquel Creek Water District sits on the California coast in Santa Cruz. This coastal water district serving Capitola and unincorporated Santa Cruz County relies solely on groundwater for its supply. Seawater intrusion exacerbated by climate change threatens the agency’s groundwater basin. Less frequent precipitation also has decreased recharge of the basin. By some estimates, groundwater recharge will decrease by 25 percent due to a rainy season that is shortened to two months (Jan-Feb). Soquel Creek is figuring climate change impacts into a groundwater model being developed for the regional Santa Cruz Mid-County Groundwater Basin. The model will have simulations that will evaluate different climate change scenarios to assess the impacts on groundwater, stream flows, and seawater intrusion. Results will refine the size of an advanced water purification project for groundwater replenishment that the agency is developing — estimated to cost between $50 to $70 million.

In compliance with the Sustainable Groundwater Management Act (SGMA) of 2014, water agencies across the state are in the process of forming regional partnerships to sustainably manage local groundwater supplies. Passed as a three-bill package, SGMA requires the formation of local groundwater sustainability agencies (GSAs) that must assess conditions in their local groundwater basins and adopt locally-based groundwater sustainability plans (GSPs). This landmark legislation provides a framework for water agencies, special districts, cities, and other local authorities to coordinate management of shared groundwater supplies, with a limited role for state intervention only if necessary to protect the shared resource. Many local agencies are on track to form GSAs by the June 30, 2017 deadline; agencies then have until January 31, 2020 and January 31, 2022 to produce GSPs for critically overdrafted basins and high- and medium-priority basins, respectively. Implementation of GSPs will help ensure that California maintains a reliable supply of groundwater as part of a diverse water supply portfolio. The act also promotes regional cooperation by bringing stakeholders together to plan for the sustainability of their groundwater.

Clearly, this testimony reveals that water agencies throughout California are utilizing all the tools in the tool box to meet the present and future water needs of the state. This multi-pronged approach is in sync
with Gov. Jerry Brown’s California Water Action Plan, which lays out a comprehensive, statewide plan for California’s water future. Through water-use efficiency, targeted storage projects, improved regional self-reliance and other long- and short-term efforts, California will be poised to meet its water challenges – including climate change – now and in the future. We look forward to participating in the second public hearing of the Special Districts Study to highlight the efforts underway and planned for the future by California water agencies to adapt to climate change. On a personal note, we have enjoyed meeting with and getting to know the capable staff who work at the Little Hoover Commission including Executive Director Carole D’Elia, Deputy Executive Director Jim Wasserman, and Research Analyst Matthew Gagnon. We appreciated the collaboration and the chance to convey the work that our member agencies have completed, and plan to complete, to adapt to climate change now and into California’s future.

Sincerely,

Wendy Ridderbusch
Director of State Legislative Relations
Association of California Water Agencies

Cc: Little Hoover Commission Executive Director Carole D’Elia
    Little Hoover Commission Deputy Executive Director Jim Wasserman
    Little Hoover Commission Research Analyst Matthew Gagnon
Special District Reserve Guidelines
SECOND EDITION

A GUIDE TO DEVELOPING A PRUDENT RESERVE.
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

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- Tim Schaefer of the public financial advisory firm, Fieldman, Rolapp & Associates
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The Formation of Special District Reserve Guidelines

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.
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

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.
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

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.
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.
### 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

Communicating regularly about district financials and reserve priorities **creates trust.**
Fund Balance and Net Position/Net Assets

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.
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.

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**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**

<table>
<thead>
<tr>
<th>NONSPENDABLE FUND BALANCE</th>
<th>RESTRICTED FUND BALANCE</th>
<th>COMMITTED FUND BALANCE</th>
<th>ASSIGNED OR DESIGNATED FUND BALANCE</th>
<th>UNASSIGNED OR UNDESIGNATED FUND BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>This category is inherently nonspendable, such as the long-term portion of loans receivable, the principle of an endowment and inventories.</td>
<td>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.</td>
<td>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.</td>
<td>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.</td>
<td>This comprises all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.</td>
</tr>
</tbody>
</table>

+ CONSTRANDED –
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.

**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.

**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*
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.
Conclusion

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.
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 versus 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.
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.
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:

2. “Best Practice – Replenishing Fund Balance in the General Fund”
3. “Governmental Accounting, Auditing, and Financial Reporting”

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.”
MEMORANDUM

TO: Legislative & Public Affairs Committee
FROM: Stacy Taylor, External Affairs Manager
DATE: November 17, 2016
SUBJECT: Special Districts Shared Efficiencies Update

RECOMMENDATION

This item is provided for information only.

STRATEGIC PLAN

Goal #3: Be financially responsible and transparent.
Goal #4: Increase public awareness about Mesa Water® and about water.
Goal #6: Provide outstanding customer service.
Goal #7: Actively participate in regional water issues.

PRIOR BOARD ACTION/DISCUSSION

Following direction provided to staff by the Mesa Water District Board of Directors (Board) at the April 18, 2016 Board Workshop, this item was discussed at Mesa Water’s Executive Committee meetings on April 26, May 20 and June 7, 2016, at Mesa Water’s Finance Committee meeting on August 15, 2016, and at Mesa Water’s Board meetings on June 16, July 14, 21 and 28, and September 8, 2016.

DISCUSSION

The Special Districts Shared Efficiencies (SDSE) project continues to be based on the objective of best serving the public in the most economical, effective and efficient way possible. Mesa Water’s preference continues to be to collaborate with Costa Mesa Sanitary District (CMSD) on the SDSE project.

Mesa Water® determined to perform a preliminary study and a follow-up study analyzing the potential benefits of combining Mesa Water and the Sanitary District. The impartial Optimal Governance Structure Study by Arcadis U.S., Inc. found that consolidating CMSD and Mesa Water into one district could achieve substantial cost-savings for customers, including $15.6 million in one-time savings that could provide a $650 rebate per customer, and $2.7 million in annual savings that could reduce customers’ sewer rates by up to 28 percent.

Based on the study’s findings, Mesa Water placed the non-binding advisory measure -- Measure TT -- on the ballot which asked voters: “Shall the Mesa Water District and the Costa Mesa Sanitary District pursue consolidation?” The Orange County Registrar of Voters’ most recently updated vote count from the November 8 General Election shows Measure TT passing with 14,099 "yes" votes (54.4% in favor) to 11,796 “no” votes (45.6% against). While there are
ballots left to be counted, it is unlikely that there are enough to change Measure TT’s outcome. The Measure TT election results provide a clear signal that voters support reducing the size and cost of local government through the pursuit of consolidating CMSD and Mesa Water into one district that would provide sewer and trash collection and water services for the community.

The passage of Measure TT is a preliminary step to a formal consolidation process by the Orange County Local Agency Formation Commission (OC LAFCO) in collaboration with the two districts. Following certification of the election results, Mesa Water will continue efforts to collaborate with CMSD on presenting a consolidation proposal for OC LAFCO to consider along with additional studies and public input.

Staff will provide a verbal report of the outreach to date and discuss possible next steps.

FINANCIAL IMPACT

In Fiscal Year 2017, $88,000 is budgeted; $10,796 has been spent.

ATTACHMENTS

None.
REPORTS:

6. REPORT OF THE GENERAL MANAGER:
REPORTS:

7. DIRECTORS' REPORTS AND COMMENTS: