



San Bernardino Valley Water Conservation District

Helping Nature Store Our Water

BUDGET WORKSHOP AGENDA

Wednesday, April 22, 2020 – 2:00 p.m. (or Immediately Following Board Meeting)

In accordance with [Governor Newsom's Executive Order N-25-20 and N-29-20](#), this meeting is being conducted via teleconference/Zoom. Anyone wishing to join the meeting can join via

Zoom: Call in (669) 900-6833, Meeting ID: 824 505 799

To join the Zoom Meeting online: <https://zoom.us/j/824505799>

Note: Copies of staff reports and other documents relating to the items on this agenda are on file at the District office and are available for public review during normal District business hours. New information relating to agenda topics listed, received, or generated by the District after the posting of this agenda, but before the meeting, will be made available upon request at the District office and in the Agenda Package on the Districts website. It is the intention of the San Bernardino Valley Water Conservation District to comply with the Americans with Disabilities Act (ADA) in all respects. If you need special assistance with respect to the agenda or other written materials forwarded to the members of the Board for consideration at the public meeting, or if as an attendee or a participant at this meeting you will need special assistance, the District will attempt to accommodate you in every reasonable manner. Please contact Athena Monge at (909) 793-2503 at least 48 hours prior to the meeting to inform her of your particular needs and to determine if accommodation is feasible. Please advise us at that time if you will need accommodations to attend or participate in meetings on a regular basis.

CALL TO ORDER

1. PUBLIC PARTICIPATION

Members of the public may address the Board of Directors on any item that is within the jurisdiction of the Board; however, no action may be taken on any item not appearing on the agenda unless the action is otherwise authorized by Subdivision (b) Section 54954.2 of the Government Code.

2. ADDITIONS/DELETIONS TO AGENDA

Section 54954.2 provides that a legislative body may take action on items of business not appearing on the posted agenda under the following conditions: (1) an emergency situation exists, as defined in Section 54956.5; (2) a need to take immediate action and the need for action came to the attention of the District subsequent to the agenda being posted; and (3) the item was posted for a prior meeting occurring not more than five calendar days prior to the date action is taken on the item, and at the prior meeting the item was continued to the meeting at which action is being taken.

3. DISCUSSION ITEMS

A. DISTRICT AND ENTERPRISE BUDGET FOR FISCAL YEAR 2020-2021

(M#1718)3

Presenter: Daniel Cozad

Recommendations: Review, discuss in a workshop format and provide any feedback on the draft 2020-2021 District and Enterprise Budget for consideration in May on the following:

1. Updated Capital Equipment and Improvement Plan

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BOARD OF DIRECTORS

Division 1:
Richard Corneille

Division 2:
David E. Raley

Division 3:
Robert Stewart

Division 4:
John Longville

Division 5:
Melody McDonald

GENERAL MANAGER

Daniel B. Cozad

2. Review 2020 Reserve Policy including any changes.
3. 2020-2021 District and Enterprise Budget Detail

4. **ADJOURN MEETING**



**San Bernardino Valley
Water Conservation District**
Helping Nature Store Our Water

Memorandum No.1718

To: Board of Directors
From: Finance & Administration Committee/Daniel Cozad, General Manager
Date: April 22, 2020 Budget Workshop/May 27, 2020 Board Action
Subject: District and Enterprise Budget for Fiscal Year 2020-2021

RECOMMENDATION

Review, discuss in a workshop format and provide any feedback on the draft 2020-2021 District and Enterprise Budget for consideration in May on the following: 1) Updated Capital Equipment and Improvement Plan, 2) Review 2020 Reserve Policy including any changes, and 3) 2020-2021 District and Enterprise Budget.

BACKGROUND

Staff prepared, and the Board approved the development plan for the District Budget and Groundwater Enterprise Budget in February 2020. The Board also noticed a 5% increase to the groundwater charge to include the final transition to a unitary groundwater rate. The noticed rate was advertised in newspaper notices and provided by letter to producers advising of the Public Meeting and the Public Hearing for determining the groundwater charges set by the Board at the Public Hearing prior to this workshop.

DISCUSSION

During the last five years, the Groundwater Enterprise has been self-sufficient, albeit with the use of stabilization funds for the most recent years. Costs have been managed to stay within or below budget within revenue (including stabilization funding). The three quarters of the fiscal year appear to be on budget and staff has used this experience to project a budget for Enterprise operations and updated capital expense costs to support the Groundwater Enterprise.

In the fall of 2014, the District began working on GC formation which would provide an orderly method for producers to assure the sustainability of the groundwater basin and an alternative method for the payment of Conservation District spreading costs regularly paid under the groundwater charge. On February 27, 2018 the GC became effective and fiscal 2020-2021 will be the third budget year for the GC funding mechanism. Two important entities have not yet joined. West Valley Water District who wished to provide funding to SBVMWD, and the City of Redlands who has not joined due to staff changes. Riverside and Redlands are budgeted to continue paying the Groundwater Charge under the California Water Code.

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The following specific components make up elements of the budget and are described separately.

Updated Capital Equipment and Improvement Plan

In the 2016 Budget process the Board requested the full cost of capital improvements; repairs and equipment be included in the budget. Staff with a review of the Operations Committee and the Finance & Administration Committee updated the Capital Equipment and Improvement Plan (CEIP). The CEIP expenditures are reflected in the draft budget, but any changes will be made and incorporated into the District and Enterprise Budget. The CEIP shows full costs due to the uncertainty of permitting and staff time available to pursue the CEIP efforts. Some of the CEIP items in the budget include the following:

- Mill Creek Diversion improvements, permitting and construction
- Mill Creek Permitting and California Department of Fish and Wildlife permit, monitoring and documentation
- Plunge Creek Conservation Construction
- Ongoing property security repairs – fencing, gates boulders, and barriers, etc.
- Mentone Shop Design and Construction
- Heavy equipment updates and replacements
- Continued land management and new lands maintenance and security
- Wash Plan implementation equipment and projects

2020 Reserve Policy

The Reserve Policy was revised in 2019 to include the Active Recharge Transfer Project Reserve (ARTP) for the Capital component of the Partnership Agreement's ARTP conservation easement funding.

Salary and Benefits

In May 2019, Koff & Associates completed their Classification and Compensation Study for the Board. The Board approved the recommended salary schedules and ranges as presented. In May 2019, the Board approved the addition of a Senior Engineer and Field Operations Specialist. The Board also re-categorized the Land Resources Manager position to Assistant Manager/Land Resources Manager. These levels will be continued with standard CPI increases.

Budget Approach

The budget approach recommended by staff includes the following efforts and activities:

- Develop and review the draft budget with the GC and groundwater charge partners
- Utilize the Groundwater Enterprise Budget to develop the proposed groundwater charge
- Review the draft budget with the Finance & Administration Committee or in a Board Workshop before submitting to the Board for approval
- Review other budgets with appropriate partners and stakeholders as appropriate
- Utilize feedback from all of the above in the development of the final budget proposal

Assumptions

The budget process this year is expected to use similar assumptions and would be based on the same factors as the prior budgets. The budget also includes the following specific assumptions:

Revenue

- Groundwater Charge revenue based on actual charges paid in the prior year with a review from the agencies.
- Ag Rate fully transitioned to Non-Ag rate
- GC revenue as calculated by the EAM based budget approved by council members
- Groundwater users who are not parties to the GC will continue to pay through the Groundwater Charge
- The property tax will be estimated based on 2019 actual receipts
- Mining revenue will be estimated based on lease guaranteed annual minimum
- Interest revenue based on investments and projected investments from ARTP revenue offsetting some general fund and project costs
- Income from Wash Plan Implementation funding

Expenses

- Expenses are estimated on a zero basis or actual costs/estimates modified based on specific needs and actual 2018 costs.
- Board Per Diem and Staff COLA increases based on Bureau of Labor Statistics CPI-U All West at 3.1% https://www.bls.gov/regions/west/news-release/consumerpriceindex_west.htm
- Board Directors fees based on maximum increase of 5%
- Utilities increase at approximately 5-8% based on sector CPI or projected rate changes
- Salary forecast includes a raise pool of 5% as a percentage of total salaries.

Based on the budget information developed the staff projects that a 5% increase in the groundwater charge is needed for 2020-2021.

Summary of 2018 Legal Changes

For many years the courts have weighed several legal cases related to the interpretation of various limitations on rate setting required by voter initiatives including Proposition (Prop) 13, Prop 218 and Prop 26. These initiatives all sought to limit the ability of local governments to raise taxes and fees without voter approval. Several cases were monitored, and out of an abundance of caution, the District incorporated all requirements of the water code, Prop 218 and Prop 26 into the rate-setting process for the groundwater charge. In a decision filed by the California Supreme Court in December 2017, the Court found that Groundwater Charges are not subject to Prop 218 but must meet the requirements of Prop 26. This requires that the charge or fee must: 1. be no more than necessary to cover the costs of the activity 2. be allocated in a manner which bears a fair or reasonable relationship to the burdens or benefits from the activity. Further, the Court essentially invalidated the California Water Code (CWC) Section 75594, which required a 3-5:1 non-Ag to Ag ratio for the charge. Historically, the District has followed the requirements of CWC Section 75594, which had the effect of providing a reduced groundwater charge for Agricultural production and allowed parks, golf courses, schools and cemeteries to enjoy the same rate. Since the inception of the groundwater

charge, the District has always set the charge to recover the costs necessary to pay the costs of the service. The requirement that it be allocated in a manner related to the burden and benefit of the recharge replaces the statutorily-dictated cost ratio.

In setting the rates in 2018 under new legal parameters, the District did not believe sufficient factual record on variable costs between the agricultural or non-agricultural uses of groundwater production was available to propose a defensible distinction of rate based on relative burdens and benefits of the two categories of uses. No further information has come to light since that time. Further, the District has not attempted to allocate its internal costs or field maintenance expenses based upon the distinction in use. Because agricultural production is not limited to specific geographic areas within the District's boundaries, nor is there designated District facilities dedicated solely, or even primarily, to Agricultural or non-agricultural use, the District Board approved a unitary rate for all production, regardless of type of use.

This change affects approximately 30 producers who produced approximately 10,815 acre-feet from 52 wells that paid groundwater charges of approximately \$35,879 in 2017. These users will effectively face an increase in per acre-foot rates of groundwater charges, due to the court-mandated discontinuance of the protected rate status under the Water Code's ratio as implemented by the District at 3.6:1. Applying this change, they would have paid approximately \$131,300. Six users would be likely to be significantly affected by the change due to production. These are primarily Municipal Agricultural Users that will pay based on the Groundwater Council or another agreement.

Because of these issues in 2018, the Board approved a three-year transition process to increase from the Ag to the Non-Ag rate utilizing the Groundwater Charge Stabilization Reserve. In support of the change, staff took significant efforts to inform these producers of the change and give them every opportunity to participate in the process of setting the groundwater charge. During the information, workshop and hearing process no Ag ratepayers indicated any opposition to the changes in rates and those who sought information seemed to appreciate the Board's phase-in process for the rate. This year's draft budget includes the full phase-in of payees who formerly paid the Ag rate.

POLICY CONSIDERATIONS

The Board considers the Groundwater Charge Rate on April 22, 2020. Attached to this memo are materials and detailed spreadsheets on revenue and expenses for the groundwater and all other enterprises. Staff has reviewed the costs to date for fiscal year and Enterprise revenue likely to be generated by the Groundwater Charge and that approved by the Groundwater Council. Staff believes there is adequate information to project the 2020-2021 groundwater budget needs and is recommending the Board advertise a 5% increase in rates for the fiscal year. The Board has in prior years asked staff recommend changes to the rate that can keep any increase to 3-5% unless there is a significant policy or economic change. Other enterprises are operating within expected revenue.

FISCAL IMPACT

Staff time for planning is included in the approved budget. Overall budgeted operating revenue increased \$123,849 due primarily to GC and groundwater charge revenue, fully-leased Redlands Plaza, and Trust Reimbursement of management and the Wash Plan loan from the District. Overall expenditures increase by approximately \$450,000 due primarily to Jump start expenses for

implementation of the Wash Plan, election fees and contribution to capital projects. The development and coordination of the groundwater charge is supported by the Groundwater Recharge Enterprise. The impact to reserves without an increase in the groundwater charge is approximately \$21,891. The GC has approved the proposed budget which limits the cost to agencies within the District boundaries and supports the Groundwater Enterprise although not all capital costs expected for the year, with the residual capital coming from capital reserves.

ALTERNATIVES

Potential Board Actions include:

1. Provide feedback to staff and request a revised budget be presented for consideration of approval on May 13th.
2. Provide staff direction on adjustments or issues with review prior to the May 13h consideration of adoption or review other committees.
3. Other action identified by legal counsel or the board

ATTACHMENTS OR MATERIALS

- Capital Equipment and Improvement Program List
- Draft Reserve Policy
- Draft Groundwater Enterprise Budget

APPROVALS

Reviewed by the Finance & Administration Committee

Reviewed by General Manager

Reviewed by District Counsel

SBVWCD Capital Projects and Needs
Existing Facilities Capital Repair and Improvement Projects

Version 15 4/16/20

Continue in Budget Discuss in workshop

CIP No.	Capital Equipment or Project	Cost Est.	Cost to Date	Budget		Status	Running Total	Prior FYS or Other	GW	Land	Active Recharge
				Remaining	FY						
1	Mill Creek	\$917,562	\$340,562	\$577,000	2016-2017	Ongoing	\$577,000				
	Mill Creek Diversion Improvement Design/Permitting	\$100,000				Ongoing		\$150,000			
	Mill Creek Diversion Improvement Implementation	\$667,562				New Start					
2	Plunge Creek Grant Funds \$500,000	\$914,828	\$414,828	\$500,000	2016-2017	Ongoing	\$1,077,000		\$500,000		
	Plunge Creek Restoration (Water and Habitat) Design/Permitting	\$50,000				Ongoing		\$100,000		\$50,000	
	Plunge Creek Restoration (Water and Habitat) Implementation	\$764,828				Planning				\$764,828	
3b	Sheds Replacement and Storage for Mentone Shop, with Bath facil.	\$280,000	\$0	\$280,000	2018-2019	New Start	\$1,357,000		\$280,000		
4	Trails Planning Design and Coordination	\$45,000	\$45,000	\$0	2016-2017	Complete	\$1,637,000	\$45,000		\$45,000	
5	Redlands Plaza Parking Lot	\$70,000	\$100,000	\$0	2016-2018	Complete	\$1,607,000	\$100,000		\$70,000	
6	Wash Plan HCP Endowment	\$55,000	\$55,000	\$0	2016-2017	Complete	\$1,607,000	\$55,000			
7	Mill Creek/ River HCP Permitting	\$120,000	\$120,000	\$0	2016-2020	Ongoing	\$1,607,000	\$80,000	\$20,000	-\$20,000	
8	Dump Truck and other Capital Equipment	\$150,000	\$35,000	\$115,000	2020	Ongoing	\$1,722,000	\$35,000	\$115,000		
9	Fencing, gates, survey, topo, preliminary plans, etc. Mendoza	\$50,000	\$33,000	\$17,000	2020-2021	Ongoing	\$1,739,000				\$17,000
10	Capital Maintenance - Mill Creek - Basin #6 to #12 capacity improver	\$30,000	\$0	\$30,000	2017-2018	DELETED	\$1,769,000		\$30,000		
11	Mill Creek North Canal Flume SB-88 Compliance	\$85,000	\$20,000	\$65,000	2020-2021	Replacement	\$1,834,000		\$65,000		
12	Habitat and Water Recharge planning or permitting for Mendoza	\$120,000	\$0	\$120,000	2018-2020	Opportunity	\$1,954,000			\$120,000	
13	Habitat Equipment Herbicide Sprayer and ATV and equipment	\$30,000	\$0	\$30,000	2019-2021	New Start	\$1,984,000			\$30,000	
14	Canyon house demolition and cleanup	\$20,000	0	\$20,000	2019-2021	New Start	\$2,004,000			\$20,000	
15	Canyon shop lead abatement maintenance and drainage grading	\$30,000	0	\$30,000	2019-2021	New Start	\$2,034,000		\$30,000		
16	Capital Maintenance SAR Main canal to #11 Service Ramp Dike D	\$75,000	\$0	\$75,000	2019-2021	New Start	\$2,109,000		\$75,000		
23	Aggressive Recharge Planning/Permitting Dredge and Fill	\$100,000	\$0	\$100,000	2019-2021	Permitting	\$2,209,000			\$100,000	
31	Active Recharge Transfer Project Capital Funding Capital	\$18,500,000	\$0	\$18,500,000	2020-2030	Ongoing	\$20,709,000				\$314,325
32	Seven W acquisition - and Initial Needs \$50,000	\$3,538,988	\$3,538,988	\$0	2019-2021	New Start	\$20,709,000	\$3,538,988		\$0	
33	Redlands Plaza Roof Replacement	\$100,000	\$0	\$100,000	2019-2021	New Start	\$20,809,000	\$100,000			
34	Wash Plan Trails-two entrance/exits, fencing, signage, HCP app cov	\$125,000	\$0	\$125,000	2020-2022	New Start	\$20,934,000			\$125,000	
35	Parshall Flume Reconstruction Repairs (50% with SBVMWD)	\$50,000	\$0	\$50,000	2018-2019	Complete	\$20,984,000				
Potential or Opportunity Projects											
17	Buffer Land Acquisitions and Security improvements	\$500,000	\$318,000	\$182,000	2016-2020	Opportunity	\$21,166,000			\$500,000	
18	Water Recharge Mendoza Design	\$50,000	\$0	\$50,000	2017-2020	Opportunity	\$21,216,000		\$50,000		
19	Water Recharge Mendoza Implementation	\$300,000	\$0	\$300,000	2017-2020	Conceptual	\$21,516,000		\$300,000		
25	Community (Distributed) Recharge Planning	\$200,000	\$0	\$200,000	2017-2021	Conceptual	\$21,716,000			\$200,000	
23	Aggressive Recharge Planning/Permitting - Mill	\$100,000	\$0	\$100,000	2017-2021	Conceptual	\$21,816,000			\$100,000	
24	Borrow Pit basins bypass to pit SAR	\$75,000	\$0	\$75,000	2018	Conceptual	\$21,891,000		\$75,000		
25	D9 Bulldozer/long reach excavator permitted cleaning D6T \$400K	\$500,000	\$0	\$500,000	2019	Potential	\$22,391,000		\$500,000		
24	Aggressive Recharge Implementation	\$1,000,000	\$0	\$1,000,000	2019-2025	Conceptual	\$23,391,000		\$1,000,000		
26	Community (Distributed) Recharge Implementation-Stormwater cap	\$2,000,000	\$0	\$2,000,000	2018-2030	Conceptual	\$25,391,000			\$2,000,000	
27	Greenspot and Cone camp parking/staging and trailheads planning	\$50,000	\$0	\$50,000	2018-2026	Conceptual	\$25,441,000			\$50,000	
28	Mining Area Multi-use Planning	\$100,000	\$0	\$100,000	2020-2025	Conceptual	\$25,541,000			\$100,000	
29	Treatment Wetlands Planning	\$150,000	\$0	\$150,000	2020-2026	Conceptual	\$25,691,000		\$50,000	\$100,000	
30	Greenspot/Cone camp parking/staging and trailheads	\$350,000	\$0	\$350,000	2018-2027	Conceptual	\$25,891,000			\$350,000	
Total Budgeted Capital Cost		\$31,596,206	\$5,020,377	\$25,791,000				\$4,203,988	\$3,667,000	\$4,721,828	\$314,325
Net of Grant		\$31,096,206		\$25,291,000							

San Bernardino Valley Water Conservation District Policy

Policy Number 0001

Date: Proposed 4/22/2020

Policy Name: District and Enterprise Reserve Policy

History: **Adopted** 1/11 revised 4/15/13, 9/11/13, 11/19/14, 4/22/15, 5/31/17, 5/22/18, 5/22/19

Application: All SBVWCD Employees, Board Members, Enterprises, Partners and Financial Advisors

GENERAL POLICY:

SBVWCD desires to better document and communicate its prudent reserve policy to identify the necessity, purpose, development, and use of District General and Enterprise reserves.

Additionally, the District needs to: 1) document a calculation methodology and/or level to be maintained for all existing and future needs within the agency where reserve funds are required and/or necessary; 2) allocate and separate funding for similar use and restrict transfer without Board approval. The policy addresses the following:

Consideration of the establishment and development/continuation of a reserve fund will be decided based on the following criteria:

- Purpose and need for the reserve fund;
- Availability and source of funds to continue, replenish or establish the reserve;
- Operating expenditures approved by annual budgets or Groundwater Charge process;
- Current and future emergency repairs, capital expenditures and debt service requirements;
- Board approval or changes to the reserve policy.

SBVWCD recognizes the importance of operating an agency or company with prudent reserve levels in place that provides for unanticipated/emergency costs, should they arise within a budgeted fiscal year. These reserves are developed with enterprise fund balances and charges. None of the District's minimal property tax allocation is included in these reserves. This policy was established in conformance with the California Special Districts Association "Special District Reserve Guidelines" published in 2000 and the Little Hoover Commission Report #239 published in 2017. Reserve revenue would be set aside to avoid requesting significantly increased funding from year to year from groundwater charge entities or other revenue sources and to ensure that the District can perform required critical tasks and respond to emergencies. The reserves developed and managed as part of this policy are specific to water conservation and recharge needs that are not supported by regional or statewide infrastructure plans.

SCOPE:

The development of the enterprise model was approved and implemented based on the review of the District's operation and performance in prior fiscal years. The enterprise model requires a policy and process for transferring reserves. It is appropriate to identify and build a General Fund operating reserve to provide funding for both District particular contingencies and annual budget shortfalls. Not covered by this policy is the investment of reserve funds. This is contained in a separate detailed Statement of Investment Policy.

This policy will provide direction to staff in the following areas:

- Sources of funds and segregation of the accounts and reserves;
- Level and/or target for a reserve;
- Limits placed on the use of reserves;
- Requirements for reporting trends for reserves;

- Limitation of transfers without Board Approval.

SPECIFIC RESERVE PROVISIONS:**A. Groundwater Recharge Enterprise Reserve**

The Groundwater Recharge Enterprise Reserve (GRER) shall be developed to fund general operating cash flow needs relative to the operation of the enterprise. Through the Groundwater Charge rate-setting process, Staff will informally coordinate with Groundwater Charge payees and the Groundwater Council on the level rates and the reserve in accordance with this policy. Initially, it is proposed that the reserve level is set at an amount equal to 100% of the GRE operating budget or a target of \$1,250,000. Transfer of funds from the GRER will occur to cover the implementation of Groundwater related capital projects. These funds will be held in the Capital Project and Equipment reserve to offset work in progress and obligated implementation funding. In addition, the accumulation of one-year's operating budget may be used to cover substantial emergency repairs or revenue shortfalls, as needed. The District's cost is higher during and in the year after a wet year, and the District's revenue is most elevated in drought years. This countercyclical relationship requires a higher reserve and prudent planning. The primary source of these funds is the District Groundwater Charge. Regular maintenance on basins is performed annually on some basins and included in the operating budget; however, reserves are used to cover the most expensive maintenance of basins which is planned on five-year or longer cycles. This results in higher costs after wet years when long-term maintenance is completed. Since 2011, the District has proportioned funding for exceptional wet year repairs and cleaning into GRER to have the funds available after wet year operations and avoid large swings in the Groundwater Charge.

An agreement with SBVMWD and WMWD provides separate funding for Enhanced Recharge operation and maintenance. This funding is distinct from funding received from the Groundwater Charge, and the uses of funds are very similar. A specific allocation to GRER of a portion of Enhanced Recharge funds annually to fund exceptional water year event costs is recommended. Assignment of a maximum of \$50,000 per year up to \$250,000 may be included in the GRER. The GW Emergency Repair target is considered fully funded at \$250,000.

B. Groundwater Assessment Rate Stabilization Reserve

This reserve is recommended to assist the District in providing stability and predictability in the Groundwater Assessment Fee. The reserve budget and excess funds will allow multi-year stability and support when costs increase or revenues decrease due to adverse weather, legal needs or other changes. This reserve will accumulate 10% of any net retained earnings of the Groundwater Enterprise from 2014 and will be budgeted at up to 5% of the total rate. This 5% may be phased in over time. The reserve shall no longer be budgeted when it reaches \$200,000.

C. Active Recharge Transfer Projects

In late 2018, the District executed a Partnership Agreement with San Bernardino Valley Municipal Water District. The Agreement provides for the provision of conservations easements to be sold and the revenue to be placed into a reserve to go toward the cost of planning, design, and implementation of the Active Recharge Transfer Projects (ARTP). This reserve is set aside for this single revenue source and could also contain future grant funds for these projects. The fund could contain up to \$36,000,000 dedicated to these capital projects.

D. Redlands Plaza Reserve

The District's offices are in Redlands Plaza, and it manages the building for itself and its tenants. Other real property owned by the District under lease to third parties is also operated by this enterprise. The Redlands Plaza Reserve (RPR) shall be developed solely from lease payments of the property leased up to an amount not to exceed the greater of 150% of the average annual maintenance costs or 50% of yearly rental proceeds plus any capital improvement needed. For 2018 the target level is set at \$81,418. The purpose of the RPR is to accumulate funding to pay for major maintenance, upgrades, marketing, or emergency repairs such as the paving completed in 2017.

E. Land Resources Reserve

The Land Resources Reserve (LRR) shall be developed to fund general operating cash flow needs and emergency situations supporting land management, planning, habitat, Wash Plan needs, and other costs related to the District's held lands. Through the payment of Aggregate royalties and additional revenue, the LRR will accumulate capital to be able to fund the management needs and establish security against future unexpected expenses related to the District's land holdings or capital projects, including new land acquisition or amenities such as trails. The Little Hoover Report #239 in 2017 recommended reserves should be accumulated for climate change needs. Staff has not thoroughly evaluated potential impacts of climate change, but adjusted capital projects or acquisition of lands related to climate change will be funded from this reserve if possible. Staff coordinates with land resource partners on likely income for each fiscal year and plans for contributions or uses of this reserve fund.

Initially, in 2011, this reserve did not have funding contribution due to limited mining activities. Costs to the Land Resources Enterprise are funded primarily by mining royalties. For 2017, the reserve was increased to \$816,743. Future levels may be set by modifications or in the Annual Budget.

F. Prepaid Royalties Reserve

The District holds a \$5 Million prepaid royalty from Robertson's. This reserve is subject to call provisions in the contract with Robertson's and is invested in 1 year or shorter investments. This Prepaid Royalties Reserve (PRR) is intended to ensure the long-term lease of District property and the payment of future royalties to the District by Robertson's. District revenue from interest may be used in the General Fund or fund the PRR if identified in the Annual Budget.

G. Community Mitigation Program Reserve

The Community Mitigation Program (CMP) Reserve shall be developed to hold funds generated through the sale of Conservation Easements through the District's Community Mitigation Program. These funds may be used for land acquisition, matching funds for grant or partner projects, habitat restoration, and research and/or pilot project related to water recharge, land management, or Wash Plan implementation. These funds are expected to accrue during implementation of the CMP, which will sunset following sale of Conservation Easements on owned acreage .

General Fund Reserves**1. General Liability Fund Reserve**

This reserve is to secure funding to the General Fund for District operations in time of temporary deficit and to balance the large swings in District cash flow. The sources of funding to the District are ephemeral and often fluctuate together so when one revenue source is down, others may be as well. Thus, the District needs to have long-term reserves and short-term operating funds and capital.

If there are urgent needs and possible unforeseen costs after the District sets rates and/or expenses which are over budget, the District will use the General Fund Reserve (GFR) to continue operations. This reserve accumulates funds for anticipated General Fund liabilities and allows the District flexibility to operate even in down economic cycles. Because the General Fund itself does not generate funding, it is often in need of Board approved transfers.

This reserve will be budgeted each year to increase and/or decrease based on annual operating expenditures of the General Fund and yearly decisions made by the Board. It is envisioned that, once achieved, this reserve level balance will be maintained at a level equal to approximately two years of General Fund operating expenses, currently roughly \$1,250,000. However, this level is ambitious given existing revenue sources to the General Fund. The General Fund has several components described below for specific purposes, uses and limitations.

A. Operating Fund Levels

The Board has established an "Operating Fund" as a subset of the General Fund Reserve. This fund, not to exceed \$300,000, is determined as a limit to what may be withdrawn by the General Manager from investments to meet the projected operating cash flow needs of the District within the budget year. Because revenue and expense timing, as well as contract reimbursements, do not align with expenses, this Operating Funding is essential. Costs vary from year to year; therefore the Operating Fund level should be reviewed and may be modified by the Board as part of the Annual Budget process. The General Manager shall not transfer operating funds from investments beyond the level of the Operating Fund without Board approval.

Additionally, specific projects (such as the Wash Plan and Plunge Creek) will have project funding that must be explained in the District Annual Budget, but such funds are not received or expended with regard to the fiscal year. Planned spending of these project funds will be identified in the budget to the extent possible and will be subject to the segregation requirements of the Reserve Policy as fiduciary funds but are not technically reserves for other purposes.

B. Compensated Absences Reserve

The Board established this reserve to reflect the set aside of earned but unpaid annual leave, sick time and vacation. The purpose of the reserve is to ensure the District can pay for sick or vacation at employee separation.

C. PERS Employer Contribution and Post Employment Expense Reserve

The District has limited post-employment liabilities due to its prudent management of benefits. The District shall review the actuarial report provided by, CALPERS or OPEB Report to provide reserve funding adequate to fund projected post-employment expenses. In May 2014, the Board allocated the total of the Post Employment Reserve to the CalPERS OPEB Trust to hold funds for the OPEB liability. No funding is included in this reserve due to the Trust.

This reserve also provides funding for the District to protect against future fluctuations in the employer contribution as witnessed over the past several years. SBVWCD, like most agencies, was not obligated to contribute to the PERS retirement program as interest rates and earnings exceeded the projected liabilities of the retirement fund. Over the past few years, the SBVWCD Employer Contribution has increased, and additional increases are forecasted for the future. This reserve will be created to set aside funds at 7% of payroll even when the requested contribution from PERS falls below this level. No contribution and/or set aside will be required at this time; however, the Board may determine a need to develop funding to offset risks associated with a future CalPERS Rate increase.

D. Self-Insurance Reserve

This reserve is to provide insurance protection to the District for losses that could arise from the property, general liability, and worker's compensation claims. The reserve should be maintained at a level that together with SBVWCD's existing insurance policies would adequately protect the District. The Self-Insurance Reserve (SIR) will accumulate funds at an annual rate of \$5,000 earning interest allocated on balances maintained. The fund shall be utilized to cover insurance losses experienced by the agency that may or may not be awaiting insurance claim reimbursement or deductibles. The agency shall cease to contribute set-aside funds upon reaching a \$50,000 balance.

F. Capital Improvement Project and Equipment Reserve

This reserve is to provide multi-year funding to support current ongoing work-in-progress, future capital projects and equipment identified and approved by the Board in the District plans and budgets. Costly equipment or vehicles are budgeted, and reserves are maintained as an alternative to funding depreciation in the budget process. The District has reviewed its capital improvement and equipment reserve based on capital repairs and equipment. This reserve target was initially set at \$400,000 in 2015 and has been increased to \$750,000 to accommodate near-term capital needs primarily for Mill and Plunge Creek projects and should be increased as these projects come to construction.

CLARIFICATIONS:Restricted Reserves

The only funds classified as restricted are those which are expressly governed by a written contract with the agency or outlined within the "bond covenants" of a bond issue. The District currently holds no restricted reserves but does hold fiduciary funds contributed by others for the Wash Plan HCP.

Unrestricted Reserves

Reserve levels classified as unrestricted are set by SBVWCD Board Policy. The Board may modify or transfer funds between reserves by Board action.

Reserve and Enterprise Transfers, Loans and Approval

The District Board has authority over all transfers and loans among enterprises and their Reserve accounts. The Board delegates day to day management of the funds of the enterprises to the General Manager. Under this authority, the General Manager may approve the transfer/loan of funds from one enterprise/reserve to/from another within the fiscal year in an amount not to exceed \$50,000. Such transfers/loans must be repaid within the same fiscal year, and accrued interest (at the LAIF rate) is due to the lending enterprise reserve from the borrowing enterprise reserve. Invested funds are pooled, and interest is allocated to the general fund unless specifically identified. Transactions above this limit or which will extend past the end of the fiscal year shall be disclosed and approved by the Board unless included in the annual budget.

