AGENDA

ADMINISTRATIVE AND FINANCE
COMMITTEE MEETING
Santa Fe Irrigation District

Tuesday, March 10, 2020
8:30 a.m.

Held at Santa Fe Irrigation District
5920 Linea del Cielo, Rancho Santa Fe, California  92067

CALL MEETING TO ORDER

ORAL COMMUNICATIONS
Opportunity for members of the public to address the Committee (Government Code Section 54954.3) Individuals may address the Committee regarding items not appearing on the posted agenda, which are within the subject matter jurisdiction of the Committee, at any time.  Comments and inquiries pertaining to items listed on the agenda will be received during the deliberation of the agenda item.  Speakers are asked to state their name, address, and topic, and to observe a time limit of three (3) minutes each.  Members of the public desiring to address the Committee are asked to complete a speaker’s card, available at the table near the entrance and present it to the Board Secretary prior to the start of the meeting.

ACTION AND DISCUSSION ITEMS

1. Approval of November 12, 2019 Minutes (pages 3-4)
2. Directors’ and General Manager’s Expense/Reimbursement  (pages 5-9)
4. Review and Discuss Proposed Updates to Santa Fe Irrigation District Reserve Policy and Reserve Levels (pages 11-32)

REPORTS

5. Administrative Services Report (verbal)
6. General Manager’s Report (verbal)
7. Committee Members’ Comments (verbal)

INFORMATION ITEMS  - None
ADJOURN

Next Scheduled Administrative and Finance Committee meeting: **Tuesday, April 7, 2020 @ 8:30 a.m.**

**Assistance for the disabled:** If you are disabled in any way and need accommodation to participate in the meeting, please call the Board Secretary at (858) 756-2424 for assistance at least three (3) working days prior to the meeting so the necessary arrangements can be made.
PRESENT: Chairman Kenneth Dunford, Director David Petree, General Manager Albert Lau, Executive Assistant Kim Johnson, Administrative Services Manager Seth Gates, and Senior Accountant Melissa Casarez were present. Also present was Ken Pun, the Pun Group, District Auditor.

CALL MEETING TO ORDER

Chairman Dunford called the meeting to order at 8:30 a.m.

ORAL COMMUNICATIONS

None

ACTION AND DISCUSSION ITEMS

1. APPROVAL OF OCTOBER 8, 2019 MINUTES

The Committee approved the minutes as presented.

2. DIRECTORS’ AND GENERAL MANAGER’S EXPENSE/REIMBURSEMENT

The Committee reviewed and approved the reports as submitted.

3. MONTHLY INVESTMENT TRANSACTION REPORT

The Committee reviewed and approved the report as submitted.

4. REVIEW AND DISCUSS DRAFT FY19 FINANCIAL STATEMENTS

ASM Gates introduced Ken Pun, the Pun Group, who gave a presentation outlining the scope of services, the auditor responsibilities, audit approach, and changes in reporting of the R. E. Badger Filtration Plant with the consolidation with the District’s financial statement. Mr. Pun and ASM Gates responded to questions from the Committee. The District’s Independent Auditor will issue an unmodified / clean opinion for the District.
After discussion, the Committee agreed with staff’s recommendation for Board consideration and asked staff to move the final statements forward for full Board consideration at their regular December meeting.

REPORTS

5. ADMINISTRATIVE SERVICES REPORT – No report

6. GENERAL MANAGER’S REPORT

GM Lau praised the Finance team on the successful audit.

7. COMMITTEE MEMBERS’ COMMENTS

Director Petree commented that he was surprised at the value of water, recently calculating his bill and finding the cost is less than a penny a gallon.

ADJOURN

Chairman Dunford adjourned the meeting at 10:20 a.m.

Kenneth Dunford, Chairman
### Per Diem Mileage & Travel & For July 1st For July 1st

<table>
<thead>
<tr>
<th></th>
<th>Per Diem</th>
<th>Mileage &amp; Parking</th>
<th>Travel &amp; Meetings</th>
<th>Total</th>
<th>Payments Parking Meetings to Present Board Committee Other Total</th>
<th>For July 1st to Present</th>
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<tbody>
<tr>
<td>Dunford</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
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<td>King</td>
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<tr>
<td>Menshek</td>
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<tr>
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<td>0.00</td>
<td>0.00</td>
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<td></td>
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</table>

* Compensated days of service may represent multiple meetings per day.

**Total**

- **$ 1,050.00**
- **$ 17.25**
- **$ 0.00**
- **$ 1,067.25**

**Compensated Days of Service**

<table>
<thead>
<tr>
<th></th>
<th>Board</th>
<th>Committee</th>
<th>Other</th>
<th>Total</th>
<th>For July 1st to Present</th>
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<td>0</td>
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</tr>
<tr>
<td>Menshek</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>17</td>
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<tr>
<td>Petree</td>
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<td>0</td>
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<td>0</td>
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**Total Paid During the Month**

- **$ 8,210.05**

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Santa Fe Irrigation District  
Board of Directors Expenses  
Paid During the Month of February 2020 and Fiscal Year-to-Date
<table>
<thead>
<tr>
<th>POST DATE</th>
<th>TRAN DATE</th>
<th>TRANSACTION DESCRIPTION</th>
<th>REFERENCE NUMBER</th>
<th>MCC</th>
<th>AMOUNT</th>
</tr>
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<tbody>
<tr>
<td>09-25</td>
<td>09-23</td>
<td>FLOWER CHILD DEL MAR DEL MAR CA</td>
<td>2403599925700016000224</td>
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<td>42.00</td>
</tr>
<tr>
<td>09-25</td>
<td>09-24</td>
<td>PANINI KABOB GRILL DEL MA SAN DIEGO CA</td>
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<tr>
<td>10-02</td>
<td>09-30</td>
<td>TONYJS JACAL SOLANA BEACH CA</td>
<td>240544692740300035477148</td>
<td>5912</td>
<td>50.00</td>
</tr>
<tr>
<td>10-04</td>
<td>10-02</td>
<td>BUONA FORCHETTA ENCI ENCINITAS CA</td>
<td>2410085927600119000039</td>
<td>5912</td>
<td>39.00</td>
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<tr>
<td>10-09</td>
<td>10-08</td>
<td>RANCHO SANTA FE BISTRO RANCHO SANTA CA</td>
<td>24055239282406646000116</td>
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**Default Accounting Code:**

800-344-5696

**SEND BILLING INQUIRIES TO:**

C/O U.S. BANKCORP SERVICE CENTER, INC
U.S. BANK NATIONAL ASSOCIATION
P.O. BOX 5335
FARGO, ND 58125-5335

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**ACCOUNT NUMBER**

<table>
<thead>
<tr>
<th>STATEMENT DATE</th>
<th>DISPUTED AMOUNT</th>
<th>AMOUNT DUE</th>
<th>DO NOT REMIT</th>
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<tbody>
<tr>
<td>10-22-19</td>
<td>$0.00</td>
<td>$0.00</td>
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**ACCOUNT SUMMARY**

PREVIOUS BALANCE: $0.00

PURCHASES & OTHER CHARGES: $207.48

CASH ADVANCES: $0.00

CASH ADVANCE FEE: $0.00

CREDITS: $0.00

TOTAL ACTIVITY: $207.48

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**SANTA FE IRRIGATION DISTRICT**

**ACCOUNT NUMBER**

<table>
<thead>
<tr>
<th>STATEMENT DATE</th>
<th>TOTAL ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>10-22-19</td>
<td>$207.48</td>
</tr>
</tbody>
</table>

**MEMO STATEMENT ONLY**

DO NOT REMIT PAYMENT

- 1/10-150-5335 $40.00
- 1/10-100-5271 $33.15
- 1/16-150-5345 $134.33

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** receipt OCT 2 & 2019 **

**BY:**

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**Admin & Finance Committee**

March 10, 2020
We certify that all purchases listed on this statement, unless annotated to the contrary, are true, correct and for official business only. Payment is authorized.

Cardholder: [Signature]
Date: [Signature]

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Admin & Finance Committee
March 10, 2020

NEW ACCOUNT ACTIVITY

<table>
<thead>
<tr>
<th>POST DATE</th>
<th>TRAN DATE</th>
<th>TRANSACTION DESCRIPTION</th>
<th>REFERENCE NUMBER</th>
<th>MCC</th>
<th>AMOUNT</th>
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<td>12-17</td>
<td>12-16</td>
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<tr>
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<td>KHANS CAVE GRILL &amp; TAVERN SAN DIEGO CA</td>
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</tr>
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ACCOUNT NUMBER: [Redacted]
ACCOUNT SUMMARY:
PREVIOUS BALANCE: $0.00
PURCHASES & OTHER CHARGES: $331.53
CASH ADVANCES: $0.00
CASH ADVANCE FEE: $0.00
CREDITS: $0.00
TOTAL ACTIVITY: $331.53

Default Accounting Code:
800-344-5696

SEND BILLING INQUIRIES TO:
C/O U.S. BANCORP SERVICE CENTER, INC
P.O. BOX 6335
FARGO, ND 58105-6335

SANTA FE IRRIGATION DISTRICT
The following is a list of the month’s investment activity:

<table>
<thead>
<tr>
<th>Security/Investment Pool</th>
<th>Settlement Date</th>
<th>Activity</th>
<th>Yield to Maturity</th>
<th>Maturity Date</th>
<th>Principal Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>NONE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Net Activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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</table>

Investment Funds*

<table>
<thead>
<tr>
<th>Security/Investment Pool</th>
<th>As of 1/31/20</th>
<th>As of 02/29/20</th>
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</thead>
<tbody>
<tr>
<td>Local Agency Investment Fund (LAIF)</td>
<td>26,558,800</td>
<td>26,558,800</td>
</tr>
<tr>
<td>San Diego County Treasurer’s Pool</td>
<td>4,425,310</td>
<td>4,425,310**</td>
</tr>
<tr>
<td>California Asset Management Program (CAMP)</td>
<td>705,941</td>
<td>706,918</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$31,690,051</td>
<td>$31,691,028</td>
</tr>
</tbody>
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*May include accrued interest not available currently for withdrawal

**Statement not available at the time of report preparation

![Distribution of Investments as of February 29, 2020](chart.png)
DATE: March 10, 2020

TO: Administrative and Finance Committee

FROM: General Manager

SUBJECT: Review and Discuss Proposed Updates to Santa Fe Irrigation District Reserve Policy and Reserve Levels

RECOMMENDATION:

It is the Staff recommendation that the Administrative and Finance Committee:

1. Review Proposed Santa Fe Irrigation District Reserve Policy and Reserve Levels; and
2. Recommend Board Approval of Santa Fe Irrigation District Reserve Policy Requirements; and
3. Recommend Board Approval of Reserve Amounts as Outlined in Attachment D; and
4. Take other action as appropriate.

BACKGROUND:

The Santa Fe Irrigation District Board of Directors (Board) established a Reserve Policy (Policy) in January 2010, that designated one restricted and three unrestricted reserve funds for the District. These reserves were established in accordance with best financial practice to ensure funding for capital investment, maintain working capital, and to provide financial stability for the District. Best practice dictates the need to review a reserve policy every three to five years. Additionally, Staff committed to bring a comprehensive discussion on District reserves during the cost-of-service process for review and potential modification(s), including establishment of a reserve to account for varying levels of local water.

A comprehensive Policy is one that considers best practices and balances competing demands for the District, as determined by the Board. Best practices considered for this analysis and recommendation include the American Water Works Association, Government Finance Officers Association (GFOA), Fitch Ratings, and comparable agency reserve policies, among others. Competing demands that must be considered in development of a Policy primarily revolve around the need to balance financial planning for the District against potential impact to customers. The proposals for the Policy consider these items to develop an inclusive set of recommendations.
DISCUSSION:

The proposed Policy includes one restricted fund and five unrestricted / designated funds, whose details, proposed Policy level(s), and reasoning for their inclusion and strategy are as follows.

**Restricted Fund**

The current Policy outlines one restricted fund for capacity fee revenues. The restrictions on capacity fee revenues received by the District are due to legal obligations, and Staff is not proposing any changes to this reserve or its requirements.

**Unrestricted / Designated Funds**

The current Policy outlines three unrestricted funds: 1) capital improvement and replacement fund, 2) operating fund, and 3) rate stabilization fund. Staff is proposing to continue these three funds, with modifications, and adding two additional reserves: 1) local water fund, and 2) working capital fund.

**Capital Improvement and Replacement Fund**

The capital improvement and replacement fund is utilized to provide funding for the District’s ten-year capital plan in addition to the capital acquisition program. It is Staff’s recommendation that the Policy plainly reflect the continued decision by the Board to allocate annual depreciation / amortization expenses and property tax revenues to the fund as a capital funding source. Based on these deposits and the continual spend on capital projects completed by the District, this fund is one in which there are consistent deposits and withdrawals, unlike the proposal for other funds in the Policy that require a Board action to utilize. The anticipated contributions and withdrawals from the fund are reviewed by the Board during the annual budget adoption process to pay for the District’s capital improvement program and acquisition budgets. This is also reviewed by the Board during the fiscal year during the mid-year budget monitoring process.

Staff is proposing to maintain the current fund minimum and maximum requirements and their calculation as they are consistent with best practices and the District’s capital planning. The Policy continues to reflect the set-aside of funds that are on a pay-go basis, which represents District funding of repair and replacement projects. As the District undertakes capital projects in the future that would require a larger outlay (i.e., Hodges repair, new dam, potable reuse project), these system enhancements would typically be debt financed and would therefore not be a part of the minimum reserve requirement for the capital improvement and replacement fund. The maximum amount, or any amount between the two, may include any amount of set-aside funding for these project if so determined by the Board.

**Operating Fund**

The operating fund as outlined in the current Policy is utilized to “… maintain working capital for current operations and to meet routine cash flow needs.” It is Staff recommendation that this reserve not be utilized for working capital and meeting routine cash flow needs, as a true “reserve” should only be drawn upon in instances where current operating funds and all other resources have been exhausted. Routine cash flow needs are proposed to be met with undesignated funds, as has been Staff recommendation and Board approved in the two past reserve reconciliations at District
Staff is proposing that any utilization of operating reserve funds must be by Board approval.

Operating reserves are utilized for timing problems associated with cash flow issues due to reduced revenues or increased expenditures. An operating reserve is not an account to balance a budget that is structurally out of alignment, and should be utilized for one-time unanticipated items or to temporarily provide resources until a long-term fix can be implemented (increased revenues through cost-of-service and/or reduced expenditures). Reserve level recommendations from various entities that provide best practice guidance range between a minimum of 45 to a maximum of 180 days. Recommendations from some of these organizations are as follows:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Recommendation / Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Finance Officers Association</td>
<td>Start with a baseline of ninety (90) days worth of working capital and then adjust the target based on the particular characteristics of the enterprise fund in question (using 45 days as the minimum acceptable level)</td>
</tr>
<tr>
<td>Water Environment Federation</td>
<td>Minimum 3 months - industry recommended 6 months</td>
</tr>
<tr>
<td>American Water Works Association</td>
<td>Generally within the range of 2 to 12 months of operating expenses</td>
</tr>
</tbody>
</table>

A reserve level is also dependent on a number of factors, such as risk in operating expense variability, revenue/payment variability (including collection ability), availability of other reserves, and credit rating objectives, among many others.

Staff’s recommendation for the operating fund is a minimum of 60 days of operating expenditures and a maximum of 120 days operating expenditures. Operating expenditures are defined as total budgeted expenditures less depreciation/amortization and any expenditures that are incurred on behalf of San Dieguito Water District (which are reimbursed). This recommendation is based on industry guidelines, taking into account that the District faces significant risk of natural disasters (i.e. wildfire and earthquake) that can disrupt revenues and also force the District to incur significant costs to restore and/or maintain service levels. Additionally, the District’s revenues from water sales are approximately 23% fixed and 77% variable. The average for Southern California water providers are 34% fixed and 66% variable, which exposes the District to additional revenue risk to comparable agencies. However, the District has other reserves to accommodate for capital and other unforeseen circumstances that may mitigate the need to retain additional funds.

Taking these items into account, the minimum recommendation of 60 days falls on the low end of guidelines. Based on this, setting the operating fund at minimum levels should possibly be done only in combination with other reserves being above minimum levels. The maximum of 120 days is based on industry guidelines and recognizing the fact that an emergency the District faces would necessitate costly unanticipated expenditures and hinder the District’s ability to collect revenues during the intervening time period.
A rate stabilization fund for a water district is commonly utilized for three purposes: 1) to ensure legal obligations on all outstanding indebtedness are maintained; 2) to provide a financial buffer due to unanticipated decline in water sales (i.e. conservation) and / or the need to purchase additional imported water due to a decline in local water, and; 3) to offset or smooth large increases in rates, typically in coordination with a cost-of-service study.

The current Policy focuses on the ability to utilize the fund to “…avoid unacceptable rate increase and fund unanticipated operating expenditures.” However, the operating fund’s intent is to provide operating expenditures in unforeseen circumstances, and Staff recommendation is to remove this particular portion of the rate stabilization fund for duplicative reasons. In consideration of the typical intended purposes for rate stabilization, Staff recommendation is to modify the Policy to include reserves to accommodate the following items: 1) principal and interest payment(s) on outstanding indebtedness; 2) funding to accommodate a reduction in local water availability; and 3) funding to accommodate an unanticipated decline in consumption.

The minimum Policy recommendation for the rate stabilization fund is the sum of the following:

1. **One year of principal and interest on indebtedness** – This is intended to provide a hedge for any potential inability to service District indebtedness or to augment the coverage ratio if needed due to a decline in net income. This is one of many key components in reviewing credit-worthiness by rating agencies and prospective buyers.

2. **100% of cost to replace local water budget** – Local water is one of the main drivers in the District’s financial outlook. With the unknown outcome of Lake Hodges’ dam repair, reduced storage, potential need to incur additional costs in transporting local water to meet budgeted levels, and the general variability in local water yield due to weather conditions, it is Staff’s recommendation to retain one year’s worth of funding to replace local water with imported water.

The maximum Policy recommendation for the rate stabilization fund is the sum of the following:

1. **Two years of principal and interest on indebtedness** – Two years of principal and interest should be maintained at a maximum, as this would provide sufficient coverage for the District to accommodate any significant impacts while the Board may consider any remediation necessary (i.e. new cost-of-service).

2. **200% of cost to replace local water budget** – A maximum of 200% of the current year’s local water projection is meant to also represent an extended period of no access to local water in the event of any unforeseen impacts from Lake Hodges dam repair or persistent weather impacts.

3. **25% of current fiscal year variable water sales revenue** – Impacts due to unanticipated conservation have been experienced by the District a number of times, greatly impacting the overall financial outlook. This was especially evident in 2016 due to mandatory conservation mandates implemented by the Governor of California. During this time, the District’s total potable water sales decreased approximately 25%. This maximum level represents a reserve to accommodate this significant event without instituting drought rates, should the Board decide to do so (not accounting for any potential fines imposed).
Local Water Fund

Local water is a critical element of financial planning for the District. The rate stabilization fund recognizes this fact and provides a hedge against the District not being able to provide sufficient local water as included in financial projections. The local water fund’s intent is to be able to segregate any positive financial impact from excess local water above financial projections, instead of depositing these funds into and bolstering the rate stabilization reserve, if the Board should so choose. The intent is to utilize any balance in the fund in combination with a new cost-of-service to potentially offset imported water costs or for any other local water purpose the Board should intend. There is not minimum or maximum Policy level for this fund, and any recommendations as to potential funding would also be made during the annual audit acceptance and reserve reconciliation process.

Working Capital Fund

The operating fund’s intention is to maintain working capital in the event of unforeseen circumstances; however, the District still needs to account for working capital to bridge any periods during high accounts receivable and / or incurring large (budgeted) expenditures to ensure no Policy funds are expended. Neither the operating or rate stabilization funds should be drawn upon during the fiscal year, while the capital and replacement fund should not be drawn upon for any operating items. The GFOA states:

*It is essential that a government maintain adequate levels of working capital in its enterprise funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services... Working capital is a crucial consideration, too, in long-term financial planning. Credit rating agencies consider the availability of working capital in their evaluations of continued creditworthiness.*

GFOA recommends that local governments adopt a target amount of working capital to maintain in each of their enterprise funds. Ideally, targets would be formally described in a financial policy and/or financial plan. In order to arrive at a customized target amount of working capital, governments should start with a baseline of ninety (90) days’ worth of working capital and then adjust the target based on the particular characteristics of the enterprise fund in question (using 45 days as the minimum acceptable level).

Based on this, Staff recommends the addition of a working capital fund with a minimum of 45 days of operating expenditures and a maximum of 90 days of operating expenditures. Operating expenditures for this fund are defined as total budgeted expenditures less depreciation / amortization, water purchases, and any expenditures that are incurred on behalf of San Dieguito Water District (which are reimbursed).
**Unrestricted / Undesignated Funds**

Any District fund balance not restricted or designated by the Policy shall remain undesignated fund balance. In no way shall these funds be appropriated and spent for any purpose unless approved by the Board. These funds may also be utilized at any time to fund any of the reserves in the Policy or to fund District and Board priorities.

**FISCAL IMPACT:**

Though there is no immediate fiscal impact attributable to this item, a District Policy will define Board approved obligations for funding of individual reserves & communicate financial sustainability goals.

Prepared by: Seth M. Gates, Administrative Services Manager
Approved by: Albert C. Lau, P.E., General Manager

Attachment A: Santa Fe Irrigation District Proposed Reserve Policy – Clean Copy
Attachment B: Santa Fe Irrigation District Proposed Reserve Policy – Redline Copy
Attachment C: Water Agency Reserve Policy Comparison
Attachment D: Proposed Policy Amounts & Recommended Reserve Levels
ATTACHMENT "A"

SANTA FE IRRIGATION DISTRICT

RESERVE FUNDS POLICY

March 2020
1. **Policy Statement**

   A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, and debt service needs. Through planning and undertaking regular cost-of-service review, the Santa Fe Irrigation District (District) will at all times strive to have sufficient funding generated from current revenues to meet its operating expenditures, pay-go for capital projects, and debt service cost obligations. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. This Reserves Funds Policy outlines specific accounts to meet these planned and unforeseen obligations.

   The Board of Directors (Board) may designate specific fund accounts and maintain minimum fund balances consistent with statutory obligations that it has determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure the District has sufficient funds to meet current and future needs. The Board will annually review and approve reserve amounts for each fund at the completion of the District annual audit.

2. **Definitions**

   There are two types of net Funds:

   I. **RESTRICTED FUNDS**: Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.

   II. **UNRESTRICTED FUNDS**: These funds have no externally imposed use restrictions. The use of unrestricted funds is at the discretion of the Board. Unrestricted funds are designated for a specific purpose, which is determined by the Board. The Board also has the authority to redirect the use of these funds as the needs of the District change.

3. **General Provisions**

   The District will maintain operating and capital funds in designated accounts. The target fund balances are considered the minimum necessary to maintain the District’s credit worthiness and adequately provide for:

   - Compliance with applicable statutory requirements
   - Financing of future capital facilities
   - Cash flow requirements
Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
Contingencies or unforeseen operating or capital needs

Through a variety of policy documents and plans, including the District Administrative Code, District Master Plans, Long Range Financial Plans, and District Strategic Plan, the Board has set forth a number of long-term goals for the District. A fundamental purpose of the District’s policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so.

The District has established and will maintain the following Fund accounts:

- Capacity Charge
- Capital Improvement and Replacement
- Operating
- Rate Stabilization
- Local Water

Actual fund balances will be reviewed on an annual basis at the completion of the District’s annual audit to reconcile the fund balances and assess the District’s financial capacity to accomplish identified activities and projects.

The minimum target balance established for each fund represents the baseline financial condition that is acceptable to the District from a risk management and financial planning perspective. Maintaining funds at appropriate levels is an ongoing business process that consists of a periodic assessment of revenues and expenditure levels. This assessment includes (either alone or in combination with each other), but is not limited to, a review of fees and charges, water usage, capital financing methods, rate of return on investment of funds, and levels of capital expenditures. A maximum balance is established for each fund as a way to ensure that the District may prioritize capitalization of each reserve as the Board may see as necessary and prudent, while not holding excess monies that may unduly impact ratepayers.

4. **Santa Fe Irrigation District Funds**

   I. **RESTRICTED FUNDS**

   a. **Capacity Charge Fund**: The Capacity Charge Fund is a Restricted Fund governed by state law. The District collects capacity charge revenue and allocates expenditures in accordance with Government Code Section § 66013.

   **Source of Funds:**
   - Prior year ending balance carried forward
   - Interest income on Fund balance
   - Capacity Charge revenues
Designation of Expenses:
- Growth/expansion related Capital Improvements
- System upgrades/enhancements

II. UNRESTRICTED FUNDS

a. Capital Improvement and Replacement Fund: The Capital Improvement and Replacement Fund is an Unrestricted Fund, which is designated by the Board for capital improvements to meet regulatory requirements, system reliability, facility replacement projects, and future infrastructure upgrades, among other items. These capital improvements are identified in the Asset Management Master Plan (“AMMP”) and outlined in the District’s (including joint facilities) ten-year Capital Improvement Program. The funds are accumulated and drawn down in a manner consistent with this Policy. The Board reviews utilization and funding of the Capital Improvement and Replacement Fund during the District’s annual budget process and updated during District mid-year projections. It is the Board’s intent to annually deposit all property tax revenues and an amount equal to the District’s total annual depreciation and amortization into the fund for pay-go of capital expenditures, in combination with any additional amount(s) as determined by the Board.

Source of Funds:
- Prior year ending balance carried forward
- Allocation of funds by Board action
- Annual contribution from operating revenue in an amount equal to depreciation and amortization expense
- San Dieguito Water District (SDWD) contributions – RE Badger capital expenses
- Interest income from any of the unrestricted funds
- Property tax revenue

Designation of Expenses:
- Capital improvement projects
- Capital repairs and replacement projects
- Major equipment acquisitions
- Office fixtures and furnishings, computer equipment and collateral items
- Emergency capital repairs and replacement

Target Fund Balance: The Capital Improvement and Replacement Fund target balance shall not exceed 100% of the total of the ten-year Capital Improvement Program (CIP) costs as identified in the Asset Management Master Plan. The Capital Improvement Fund target balance shall at all times equal or exceed 100% of the Pay-Go portion of the current fiscal year’s CIP, 50% of the Pay-Go portion of the following fiscal year’s CIP, and 25% of the Pay-Go portion of the succeeding fiscal year’s CIP.
Pay-Go is defined as the portion of capital expenditures that are not funded through debt issuance.

b. **Operating Fund**: The Operating Fund is an Unrestricted Fund that is designated by the Board to maintain working capital for current operations in the event of unforeseen circumstances. Utilization of the operating fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

**Source of Funds:**
- Prior year ending balance carried forward
- Allocation of funds by Board action
- Interest Income from any of the unrestricted funds
- Net operating income

**Designation of Expenses:**
- Cash flow requirements
- Transfers to Rate Stabilization Fund, Capital Improvement and Replacement Fund, or Working Capital Fund

**Target Fund Balance:** The Operating Fund target balance shall be a minimum of sixty (60) days and a maximum of one hundred and twenty (120) days of the current fiscal year’s operating budget, less depreciation / amortization and any portion of costs paid by SDWD.

**Rate Stabilization**: The Rate Stabilization Fund is an Unrestricted Fund utilized to avoid unacceptable rate increases in combination with a cost-of-service study. Additionally, the fund may be utilized to accommodate a temporary reduction in revenues or increase in expenses such as (but not limited to) short term reductions in water sales and / or the purchase of imported water due to lack of local water. This fund may also be utilized to maintain compliance with any indebtedness obligations. Utilization of the rate stabilization fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

**Source of Funds:**
- Prior year ending balance carried forward
- Allocation of funds by Board action
- Net operating income
- Interest income from any of the unrestricted funds
- Transfers from Local Water Fund

**Designation of Expenses:**
- Provide operating revenue to offset unacceptable rate increases
- Offset water sales revenue loss
- Purchase of additional imported water to offset lack of local water
- Compliance with debt service obligations
Transfers to Local Water Fund

Target Fund Balance: The Rate Stabilization Fund target balance shall not fall below the sum of the following:

- One year of principal and interest payments on indebtedness
- 100% of the cost to replace the current fiscal year’s budget for local water with San Diego County Water Authority (SDCWA) untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation

And shall not at any time exceed the sum of the following:

- Two years of principal and interest payments on indebtedness
- 200% of the cost to replace the current fiscal year’s budget for local water with SDCWA untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
- 25% of the current fiscal year’s budgeted variable water sales revenue

d. **Local Water:** The Local Water Fund is an Unrestricted Fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than employed to set potable water rates for customers. Any funds deposited into the reserve are intended to be utilized during subsequent cost-of-service planning to offset imported water costs.

**Source of Funds:**

- Savings on purchased water from SDCWA as compared to projections utilized to set potable water rates
- Transfers from Rate Stabilization Fund

**Designation of Expenses:**

- Utilization to offset imported potable water costs during cost-of-service development
- Transfer to Rate Stabilization Fund
- Any other local water use as determined by the Board

**Target Fund Balance:** There is no minimum or maximum target balances for this fund as any contribution and balance is solely at the discretion of the Board.

e. **Working Capital:** The Working Capital Fund is an Unrestricted Fund intended to provide sufficient cash flow for day-to-day operations of the District to ensure that operating and rate stabilization funds designated by this Policy are not utilized without Board approval. Utilization and deposits to the fund during the fiscal year will be managed by Staff; however, any utilization of working capital to balance the budget will be approved by the Board during the annual budget adoption process.

**Target Fund Balance:** The Working Capital target balance shall be a minimum of forty-five (45) days and a maximum of one hundred and twenty (90) days of the
current fiscal year’s operating budget, less water purchases, depreciation/amortization, and any portion of costs paid by SDWD.

5. **Delegation of Authority**

The Board of the Santa Fe Irrigation District has sole authority to amend or revise the District’s Reserve Funds Policy. Management responsibility for the Reserve Funds Policy is hereby delegated to the General Manager, who through approval of this Policy has established written procedures for the management of the District’s Funds.
SANTA FE IRRIGATION DISTRICT

RESERVE FUNDS POLICY

January 2010 – March 2020
SANTA FE IRRIGATION DISTRICT
RESERVE FUNDS POLICY

1. **Policy Statement**

A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. Through planning and undertaking regular cost-of-service review, the Santa Fe Irrigation District (District) will at all times strive to have sufficient funding generated from current revenues to meet its operating expenditures, capital pay-go for capital projects, and debt service cost obligations. Funds will be accumulated and maintained to allow the District to fund expenditures in a manner consistent with all District Master Plans and avoid significant rate fluctuations due to changes in cash flow requirements. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. This Reserves Funds Policy outlines specific accounts to meet these planned and unforeseen obligations.

The Board of Directors (Board) may designate specific fund accounts and maintain minimum fund balances consistent with statutory obligations that it has determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure the District has sufficient funds to meet current and future needs. The Board of Directors will annually review the level of Funds and approve reserve amounts for each fund at the completion of the District annual audit.

2. **Definitions**

There are two types of net Funds:

I. **RESTRICTED FUNDS**: Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.

II. **UNRESTRICTED FUNDS**: These funds have no externally imposed use restrictions. The use of Unrestricted Funds is at the discretion of the Board of Directors. Unrestricted Funds are designated for a specific purpose, which is determined by the Board of Directors. The Board of Directors also has the authority to redirect the use of these funds as the needs of the District change.

3. **General Provisions**

The District will maintain operating and capital funds in designated accounts. The target fund balances are considered the minimum necessary to maintain the District’s credit worthiness and adequately provide for:
Compliance with applicable statutory requirements
- Financing of future capital facilities
- Cash flow requirements
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Contingencies or unforeseen operating or capital needs

Through a variety of policy documents and plans, including the District Administrative Code, District Master Plans, Long Range Financial Plans, and District Strategic Plan, the Board of Directors has set forth a number of long-term goals for the District. A fundamental purpose of the District’s policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so.

The District has established and will maintain the following Fund accounts:

- Capacity Charge
- Capital Improvement and Replacement
- Operating
- Rate Stabilization
- Local Water
- 
- 

Actual fund balances will be reviewed on an annual basis at the close of the fiscal year—the completion of the District’s annual audit to reconcile the fund balances and assess the District’s financial capacity to accomplish identified activities and projects. In the event the Rate Stabilization Fund or Operating Fund balances exceed the established maximum targets, excess monies will be transferred annually into the Capital Improvement Fund. In the event the Capital Improvement Fund balance exceeds the established maximum target, the Board of Directors will make a determination regarding the reallocation of excess monies.

The minimum target balance established for each fund represents the baseline financial condition that is acceptable to the District from a risk management and financial planning perspective. Maintaining funds at appropriate levels is an ongoing business process that consists of a periodic assessment of revenues and expenditure levels. This assessment includes (either alone or in combination with each other), but is not limited to, a review of fees and charges, water usage, capital financing methods, rate of return on investment of funds, and levels of capital expenditures. A maximum balance is established for each fund as a way to ensure that the District may prioritize capitalization of each reserve as the Board may see as necessary and prudent, while not holding excess monies that may unduly impact ratepayers.

The Board of Directors shall approve any reallocation of funds or any transfers among Funds, including an annual reconciliation at the close of the fiscal year.
4. Santa Fe Irrigation District Funds

I. RESTRICTED FUNDS

a. **Capacity Charge Fund**: The Capacity Charge Fund is a Restricted Fund governed by state law. The District collects capacity charge revenue and allocates expenditures in accordance with Government Code Section § 66013.

   Source of Funds:
   - Prior year ending balance carried forward
   - Interest income on Fund balance
   - Capacity Charge revenues

   Designation of Expenses:
   - Growth/expansion related Capital Improvements
   - System upgrades/enhancements

II. UNRESTRICTED FUNDS

a. **Capital Improvement and Replacement Fund**: The Capital Improvement and Replacement Fund is an Unrestricted Fund, which is designated by the Board of Directors for capital improvements to meet regulatory requirements, system reliability, facility replacement projects, and future infrastructure upgrades, among other items. These capital improvements are identified in the Asset Management Master Plan (“AMMP”) and outlined in the District’s (including joint facilities) ten-year Capital Improvement Program. The funds are accumulated and drawn down in a manner consistent with this Policy. The Board of Directors approves reviews utilization and funding of the Capital Improvement and Replacement Funds during the District’s annual budget process and updated during District mid-year projections. It is the Board’s intent to annually deposit all property tax revenues and an amount equal to the District’s total annual depreciation and amortization into the fund for pay-go of capital expenditures, in combination with any additional amount(s) as determined by the Board.

   Source of Funds:
   - Prior year ending balance carried forward
   - Allocation of funds by Board of Directors’ action
   - Annual contribution from Operating Revenue in an amount equal to depreciation and amortization expense
   - San Dieguito Water District (SDWD) contributions – RE Badger Capital Expenses
   - Interest Income from any of the Unrestricted Funds
   - Property Tax revenue
Designation of Expenses:

- Capital Improvement Projects
- Capital Repairs and Replacement Projects
- Major equipment acquisitions
- Office fixtures and furnishings, computer equipment and collateral items
- Emergency capital repairs and replacement

Target Fund Balance: The Capital Improvement and Replacement Fund target balance shall not exceed 100% of the total of the ten-year Capital Improvement Program (CIP) costs as identified in the Asset Management Master Plan. The Capital Improvement Fund target balance shall at all times equal or exceed 100% of the Pay-Go portion of the current fiscal year’s CIP, 50% of the Pay-Go portion of the following fiscal year’s CIP, and 25% of the Pay-Go portion of the succeeding fiscal year’s CIP. Pay-Go is defined as the portion of capital expenditures that are not funded through debt issuance.

Source of Funds:

- Prior year ending balance carried forward
- Allocation of funds by Board of Directors’ action
- Transfers from Rate Stabilization Fund
- Interest Income from any of the unrestricted funds
- Net operating income

Designation of Expenses:

- Cash flow requirements
- Transfers to Rate Stabilization Fund, or Capital Improvement and Replacement Fund, or Working Capital Fund
- Debt Service

Target Fund Balance: The Operating Fund target balance shall be a minimum of sixty (60) days and a maximum of ninety-one hundred and twenty (90120) days of the current fiscal year’s operating budget, less depreciation/amortization and any portion of costs paid by SDWD.

e. Rate Stabilization: The Rate Stabilization Fund is an Unrestricted Fund utilized to avoid unacceptable rate increases in combination with a cost-of-service study. Additionally, the fund may be utilized to accommodate a temporary reduction in revenues or increase in expenses such as (but not limited to) and fund
unanticipated operating expenditures—short term reductions in water sales and/or the purchase of imported water due to lack of local water. This fund may also be utilized to maintain compliance with any indebtedness obligations. Utilization of the rate stabilization fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Policy levels shall also be accompanied by a plan and timeline for replenishment.

Source of Funds:
- Prior year ending balance carried forward
- Allocation of funds by Board of Directors’ action
- Net operating income
- Interest income from any of the unrestricted funds
- Transfers from Local Water Fund

Designation of Expenses:
- Transfers to Operating Fund or Capital Improvement and Replacement Fund
- Provide operating revenue to offset unacceptable rate increases
- Contingencies, unforeseen operating needs or disruptions to revenues or service
- Offset water sales revenue loss
- Purchase of additional imported water to offset lack of local water
- Compliance with debt service obligations
- Transfers to Local Water Fund

Target Fund Balance: The Rate Stabilization Fund target balance shall not exceed the fall below the sum of the following:
- 100% of the current fiscal year’s budgeted property tax revenues
- One year of principal and interest payments on indebtedness
- 30% of the current fiscal year’s budgeted variable water sales revenues
- 100% of the cost to replace the current fiscal year’s budget for local water with San Diego County Water Authority (SDCWA) untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
- 25% of the current fiscal year’s budgeted wholesale water costs

And shall not at any time be less than the exceed the sum of the following:
- 8% of the current fiscal year’s budgeted property tax revenues
- Two years of principal and interest payments on indebtedness
- 10% of the current fiscal year’s budgeted variable water sales revenues
- 200% of the cost to replace the current fiscal year’s budget for local water with SDCWA untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
- 525% of the current fiscal year’s budgeted wholesale water costs
d. **Local Water:** The Local Water Fund is an Unrestricted Fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than employed to set potable water rates for customers. Any funds deposited into the reserve are intended to be utilized during subsequent cost-of-service planning to offset imported water costs.

**Source of Funds:**
- Savings on purchased water from SDCWA as compared to projections utilized to set potable water rates
- Transfers from Rate Stabilization Fund

**Designation of Expenses:**
- Utilization to offset imported potable water costs during cost-of-service development
- Transfer to Rate Stabilization Fund
- Any other local water use as determined by the Board

**Target Fund Balance:** There is no minimum or maximum target balances for this fund as any contribution and balance is solely at the discretion of the Board.

e. **Working Capital:** The Working Capital Fund is an Unrestricted Fund intended to provide sufficient cash flow for day-to-day operations of the District to ensure that operating and rate stabilization funds designated by this Policy are not utilized without Board approval. Utilization and deposits to the fund during the fiscal year will be managed by Staff; however, any utilization of working capital to balance the budget will be approved by the Board during the annual budget adoption process.

**Target Fund Balance:** The Working Capital target balance shall be a minimum of forty-five (45) days and a maximum of one hundred and twenty (90) days of the current fiscal year’s operating budget, less water purchases, depreciation/amortization, and any portion of costs paid by SDWD.

5. **Delegation of Authority**

The Board of Directors of the Santa Fe Irrigation District has sole authority to amend or revise the District’s Reserve Funds Policy. Management responsibility for the Reserve Funds Policy is hereby delegated to the General Manager, who through approval of this Policy has established written procedures for the management of the District’s Funds.
## Water Agency Reserve Policy Comparison

<table>
<thead>
<tr>
<th>Water Agency</th>
<th>Operating Reserve</th>
<th>Capital Reserve</th>
<th>Rate Stabilization</th>
<th>Additional Reserves For Comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olivenham Municipal Water District</td>
<td>Minimum: 60 days of operating expenditures</td>
<td>1 year of capital expenditure plan</td>
<td>25% of avg net water sales in current fiscal year</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Maximum: 120 days of operating expenditures</td>
<td>5 years of capital expenditure plan</td>
<td>50% of avg net water sales in next two fiscal years</td>
<td>Capital Reserve for developer contributed assets &amp; money not spent in prior years</td>
</tr>
<tr>
<td>Helix Water District</td>
<td>Minimum: Target balance determined as part of the rate setting process</td>
<td>1 year debt principal payment + 1 year CIP spend + funding for plant upgrades</td>
<td>1 yr debt pymt + 3mo operating expense &amp; loss of net revenue from a 10% loss of sales</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Maximum: Target balance determined as part of the rate setting process</td>
<td>1 year debt principal payment + 2 years CIP spend + funding for plant upgrades</td>
<td>1 yr debt pymt + 6mo operating expense &amp; loss of net revenue from a 20% loss of sales</td>
<td>None</td>
</tr>
<tr>
<td>Padre Dam Municipal Water District</td>
<td>Minimum: 1 year of capital expenditure plan</td>
<td>5 years of capital expenditure plan</td>
<td>25% of avg net water sales in next two fiscal years</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Maximum: 1 year of capital expenditure plan</td>
<td>5 years of capital expenditure plan</td>
<td>50% of avg net water sales in next two fiscal years</td>
<td>None</td>
</tr>
<tr>
<td>Sweetwater Authority</td>
<td>Minimum: “General Fund” that holds a minimum of 2 months of operating expenditures to provide working capital, annual CIP, and bond coverage. Target is prescribed in five-year financial plan.</td>
<td>1 year of capital expenditure plan</td>
<td>25% of avg net water sales in current fiscal year</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Maximum: “General Fund” that holds a minimum of 2 months of operating expenditures to provide working capital, annual CIP, and bond coverage. Target is prescribed in five-year financial plan.</td>
<td>1 year of capital expenditure plan</td>
<td>50% of avg net water sales in next two fiscal years</td>
<td>None</td>
</tr>
<tr>
<td>Vallecitos Water District</td>
<td>Minimum: None</td>
<td>3 years of capital expenditure plan</td>
<td>Any excess from other reserves will be transferred here &amp; excess used to minimize rate impacts</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Maximum: 180 days of operating expense w/out water</td>
<td>10 years of capital expenditure plan</td>
<td>OPEB reserve fund to pay down outstanding balance</td>
<td>None</td>
</tr>
<tr>
<td>City of San Diego</td>
<td>Minimum: 70 days of operating expenditures (less water and debt service)</td>
<td>None</td>
<td>5% prior FY operating revenues</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Maximum: None</td>
<td>None</td>
<td>No maximum</td>
<td>None</td>
</tr>
</tbody>
</table>

ATTACHMENT "C"
# Reserve Policy Recommendations

<table>
<thead>
<tr>
<th>FUND</th>
<th>Existing Policy</th>
<th>Proposed Policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital and Replacement</strong></td>
<td>100% current year pay-go CIP, 50% second year pay-go CIP, 25% third year pay-go CIP</td>
<td>100% current year pay-go CIP, 50% second year pay-go CIP, 25% third year pay-go CIP</td>
</tr>
<tr>
<td></td>
<td>$11,517,826 $38,454,891</td>
<td>Current Balance - $13,522,570</td>
</tr>
<tr>
<td></td>
<td>10% current year property tax + 10% current year variable water sales + 5% current year wholesale water costs</td>
<td>Ten year CIP program</td>
</tr>
<tr>
<td></td>
<td>$2,919,304 $11,772,939</td>
<td>Maximum Balance - $6,266,599</td>
</tr>
<tr>
<td></td>
<td>8% current year property tax + 10% current year variable water sales + 5% current year wholesale water costs</td>
<td>$4,356,556</td>
</tr>
<tr>
<td></td>
<td>$2,919,304 $11,772,939</td>
<td>Operating expenses</td>
</tr>
<tr>
<td></td>
<td>60 days operating expenses</td>
<td>60 days operating expenses</td>
</tr>
<tr>
<td></td>
<td>120 days operating expenses</td>
<td>90 days operating expenses</td>
</tr>
<tr>
<td></td>
<td>$4,177,732 $6,266,599</td>
<td>Current Balance - $6,266,599</td>
</tr>
<tr>
<td><strong>Local Water</strong></td>
<td>N/A</td>
<td>Board Determined</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>Board Determined</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Working Capital</strong></td>
<td>N/A</td>
<td>$3,000,000</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Unassigned Funds</strong></td>
<td>$3,000,000</td>
<td>$1,904,016</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>$45 days operating expenses*</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>90 days operating expenses*</td>
</tr>
<tr>
<td></td>
<td>N/A</td>
<td>45 Operating Days - $1,733,074</td>
</tr>
<tr>
<td><strong>TOTAL FUNDS</strong></td>
<td>$27,145,725</td>
<td>$27,145,725</td>
</tr>
<tr>
<td></td>
<td>$3,000,000</td>
<td>$1,904,016</td>
</tr>
</tbody>
</table>

* operating expenses for working capital fund do not include water purchases

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**ATTACHMENT "D"**

Admin & Finance Committee
March 10, 2020