

RESOLUTION NO. 6-22-03

**RESOLUTION OF THE BOARD OF DIRECTORS OF
THE LOS VAQUEROS RESERVOIR JOINT POWERS AUTHORITY
ESTABLISHING A RESERVE POLICY**

WHEREAS, it is prudent for a public agency to maintain established levels of reserves and the Joint Exercise of Powers Agreement for the Los Vaqueros Reservoir Expansion Joint Powers Authority requires the establishment of reserve accounts for administrative, operational, debt service and capital costs; and

WHEREAS, reserves serve as a risk management tool to provide a buffer and mitigation against both uncertain and known risks, and whereas established reserves provide financial resiliency and stability to an agency; and

WHEREAS, the Board of Directors of the Los Vaqueros Reservoir Joint Powers Authority deems it prudent to establish a policy to provide guidance and to monitor the establishment and maintenance of reserves; and

NOW THEREFORE, the Board of Directors of the Los Vaqueros Reservoir Joint Powers Authority hereby adopts the following Reserve Policy.

Los Vaqueros Reservoir Joint Powers Authority Reserve Policy

Purpose

Establishment of proper reserves is an integral part of the fiscal health of the Los Vaqueros Reservoir Joint Powers Authority (the “Authority”). Specifically, this policy is set forth to:

1. Define Reserve Funds, their funding sources and allowable uses; and
2. Establish Reserve Fund Targets that -
 - a. Provide sufficient funds on hand with the Authority to pay administrative, operating, capital improvement and debt service obligations on time; and
 - b. Minimize the amount of funds held with the Authority as compared to its Members, as well as minimize the need to request advanced Member funding contributions; and
3. In conjunction with the Service Agreements, establish the allocation basis for how much each Member contributes to fund reserves to meet reserve fund targets; and
4. Assign authority to the Executive Director or their delegate to invoice required contributions and advances from the Members to meet the Reserve Fund Targets as established in this policy.

General Background

The Authority was created in October of 2021 through the approval of a Joint Exercise of Powers Agreement (JPA Agreement), among the Authority’s eight members: Alameda County Water District, Contra Costa Water District (“CCWD”), East Bay Municipal Utility District,

Grassland Water District, San Francisco Public Utilities Commission, San Luis & Delta-Mendota Water Authority, Santa Clara Valley Water District and Zone 7 Water Agency. The Authority was formed in connection with the Phase 2 Los Vaqueros Reservoir Expansion Project. The Authority was formed with a financial structure that essentially acts as a pass-through entity of the expenses to its Members through operating fund and non-operating fund cost allocations assigned to each Member as determined by the Service Agreements into which each Member and the Authority will enter.

Operating Funds

The Authority operates on a model where it contracts out its operations and administrative functions and retains no staff of its own. CCWD was designated as the Authority's Interim Administrator and subsequently an Executive Director will be retained to assist with the management of the Authority's activities. The Authority will enter into separate Service Agreements with each Member that will allocate various administrative and operating costs among the Members. When necessary, the Administrator will invoice Members in accordance with their respective Service Agreement to obtain funds necessary to meet the Authority's payment obligations.

Non-Operating Funds

Both costs for capital improvement projects (CIP) and debt service payments are incurred and will be paid directly by the Authority and have separate revenue streams from each Member that are established in the annual non-operating fund budget. Debt Service costs are highly predictable due to their predetermined nature but have severe consequences for late or non-payment. Each Member is required to make its own debt service payments in alignment with the debt service schedule. Due to the strong credit history and ratings of each Member, there is no expectation of a Member not being able to make payments. However, it is prudent to mitigate any risk of potential technical difficulties in making payments, such as with a bank error, by having sufficient cash on hand to cover a Member's payment in the event of unforeseen complications.

Alternatively, capital costs can vary significantly in both amount and timing from projections due to the nature of construction costs and progress. Overall budgets for CIP are approved on a per project basis, and each project's respective funding requirements are anticipated for the upcoming fiscal year in the non-operating fund budget and its related capital contribution requirements. These capital contributions are billed to Members in advance on an annual basis based on the estimated funding requirements of the approved CIP to ensure sufficient funding to make project payments.

Administrative and Operating Fund Reserve

Purpose: To establish a permanent reserve that provides sufficient liquidity as working capital to fund administrative and operating expenses of the Authority.

Reserve Target: This reserve target is set on the basis of providing for a minimum of two months of budgeted administrative and operating expenses and shall generally be calculated at 17% (2 months / 12 months) of the annual operating budget. It is initially established at a minimum amount of \$0 and shall be updated every year in the budget review and approval process and may be set at

amounts higher than this as approved by the Board in consideration of special circumstances at that time.

Source of Funds: Contributions shall be assessed to each Member based on its administrative and operating expense allocation as specified in its Service Agreement and updated in the operating budget for the fiscal year applicable to when the contribution is required. Any necessary replenishment of the Operating Fund Reserve is to be determined and included in the operating budget for the following fiscal year, except as otherwise necessary and approved by the Board. An advance of the Members' annual administrative and operating expense contributions may be assessed to the Members at any time in the year upon a determination by the Executive Director that such an advance is necessary to meet payment obligations of the Authority. Subject to the provisions of Section 7.12 of the Authority's Joint Exercise of Powers Agreement, any Member that fails to contribute to the Administrative and Operating Fund Reserve within ninety (90) days of being notified in writing of the amount of its contribution is subject, at the discretion of the Authority's Board of Directors, to an administrative charge of up to five percent (5%) of the amount of that contribution.

Allowable Uses: Funds from this reserve may be used for payment of administrative and operating expenses and may also be used to temporarily advance capital costs or debt service costs if reserves established for such purposes are insufficient to meet payment obligations and repayment is anticipated within six (6) months.

Debt Service Fund Reserve

Purpose: To establish a permanent reserve that mitigates risk of non-payment on the Authority's debt service obligations due to temporary delays in payment from Members.

Reserve Target: This reserve target is set on the basis of having sufficient funds on hand to pay the highest single debt service payment of any single Member should a delay in payment occur. It is initially established at a minimum amount of the sum of one times the maximum annual debt service coverage attributable to each Member, subject to review and adjustment when the Authority issues additional debt.

Source of Funds: Contributions shall be assessed to each Member based on the percentage of its share of the aggregate amount of long-term debt as specified in its Service Agreement. Subject to the provisions of Section 7.12 of the Authority's Joint Exercise of Powers Agreement, any Member that fails to contribute to the Debt Service Fund Reserve within ninety (90) days of being notified in writing of the amount of its contribution is subject, at the discretion of the Authority's Board of Directors, to an administrative charge of up to five percent (5%) of the amount of that contribution.

Allowable Uses: Funds from this reserve may be used to advance a payment on debt service should payment on debt service contributions by Members not be made timely. If funds are used for such a purpose, they shall be reimbursed by the Member(s) benefitting by the advance.

Capital Project Fund Reserve

Purpose: To establish a temporary reserve that provides sufficient working capital for authorized capital expenditures.

Reserve Target: This reserve target is set on the basis of providing for a minimum of two months of budgeted capital expenses and shall generally be calculated at 17% (2 months / 12 months) of the annual capital budget. That target is initially established at a minimum amount of \$3.83 million and shall be updated every year in the budget review and approval process and may be adjusted as approved by the Board in consideration of the circumstances at that time. Total project budgets are approved by the Board individually but are typically approved as a package in the annual CIP budget process. Amounts estimated to be needed for funding in a fiscal year are included in the non-operating budget. Due to uncertainty associated with such projections, these advances are reconciled on a Member-by-Member basis semi-annually and the difference to actual capital expenses charged or credited to the respective Members.

Additional advances in the interim of the quarterly invoices may be required if the Executive Director determines that funds above those on hand are required to meet capital payment obligations. This would be typically used to cover funds for projects that will be reimbursed by external sources, such as with state or federal loans or grants.

Source of Funds: Contributions shall be assessed to each Member based on the capital cost sharing allocation as set forth in the Member's Service Agreement and can be up to the aggregate amount of the approved budgets for the applicable CIP projects. Advanced cash to be reimbursed by external sources (loans, grants, etc.) will be credited back to the respective Member once the temporary reserve is no longer needed. Each Member will be invoiced for its respective share on an annual basis but may pay its share into the Capital Fund Reserve on a quarterly basis. Subject to the provisions of Section 7.12 of the Authority's Joint Exercise of Powers Agreement, any Member that fails to contribute to the Capital Fund Reserve within ninety (90) days of the date that contribution is due to the Authority is subject, at the discretion of the Authority's Board of Directors, to an administrative charge of up to five percent (5%) of the amount of that contribution.

Allowable Uses: Funds from this reserve may be used for payment of capital expenses and may also be used to temporarily advance debt service costs if funds in the Debt Service Fund Reserve are insufficient and repayment is anticipated within six (6) months.

Reserve Reimbursement

Subject to the provisions of Section 7.12 of the Authority's Joint Exercise of Powers Agreement, and at the discretion of the Authority's Board of Directors, if the Member fails to reimburse the aforementioned reserves within six (6) months of the Authority drawing on that Member's share of monies held in the respective reserve, an additional administrative charge in the amount of five percent (5%) per annum of the amount to be reimbursed will be imposed upon that Member, prorated for the period of time between the six month due and the full repayment date.

Accounting/Record Keeping

Each reserve fund shall be accounted for separately on the Authority's accounting records,

including recording in sufficient detail to delineate the sources of funds on a per Member basis, in addition to tracking of the uses of such reserves. Advances of cash from Members will be tracked separately to allow proper crediting to the total contributions due from each Member. Reporting to the Board of Directors on the status of the reserves shall be made no less frequently than annually and will typically be included in the analysis provided during the budget review and approval process.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Los Vaqueros Reservoir Joint Powers Authority this 8th day of June, 2022, by the following roll call vote:

AYES:
NOES:
ABSTAIN:
ABSENT:


Angela Ramirez Holmes (Jun 15, 2022 16:41 CDT)

Angela Ramirez Holmes, Chair

ATTEST:


Ellen Wehr (Jun 10, 2022 21:53 PDT)

Ellen Wehr, Secretary