

Borrego Water District
AGENDA
Board of Directors
Special Meeting
April 6, 2011
8:15 AM
806 Palm Canyon Drive
Borrego Springs, CA 92004

I. OPENING PROCEDURES

- A. Call to Order
- B. Pledge of Allegiance
- C. Roll Call
- D. Approval of Agenda
- E. Comments from Directors and Requests for Future Agenda Items
- F. Comments from the Public and Requests for Future Agenda Items (comments will be limited to 3 minutes)

II. CLOSED SESSION

- A. Discussion regarding personnel with Dr. Brian Brady under Govt. Code section 54957.
- B. Discussion regarding advice from legal counsel regarding the Viking Ranch purchase agreement subject to Gov.Code section 54956.9 (b) and (c) and or the purpose of giving direction to the District's negotiators under Gov. Code section 54956.8 related to the real property known as the Viking Ranch with negotiators Lee Estep, Beth Hart, and Jerry Rolwing for the District in preparation for negotiating with Lance Lundberg from the Viking Ranch.
- C. Discussion for the purpose of giving direction to the District's negotiators under Gov. Code section 54956.8 related to the real property known as the Cocopah Nurseries with negotiators Lee Estep, Beth Hart, and Jerry Rolwing for the District.
- D. Discussion for the purpose of giving direction to the District's negotiators under Gov. Code section 54956.8 related to the lease of real property known as the Club Circle Golf Course with negotiators Lee Estep, Eleanor Shimeall, and Jerry Rolwing for the District in preparations for discussions with Jack Cameron.
- E. Discussion and possible action regarding the selection of District Counsel reporting to the board under Govt. Code section 54957.
- F. Discussion for the purpose of giving direction to the District's negotiators under Gov. Code section 54956.8 related to the settlement terms on the real property know as Monica with negotiators Beth Hart and Jerry Rolwing for the District.

III. CURRENT BUSINESS MATTERS

- A. Discussion and possible approval of water availability form for US Solar Project.
- B. Discussion and possible action of reimbursement of water credit payment

IV. WORKSHOP ITEMS

- A. Discussion and possible action regarding the FY 2012 budget.

V. CLOSING PROCEDURE

Adjournment The next Regular Meeting of the Board of Directors is scheduled for April 27, 2011 at the Borrego Water District.

I. BACKGROUND AND INTRODUCTION

The complex nature of the District's operations and its various legal, legislative, contractual, and divisional boundary requirements dictate a multifaceted and sophisticated financial structure. The District has implemented numerous operating programs in order to secure water and wastewater service resources at the lowest possible cost to its valued customers without compromising service reliability or quality of service. These operating programs and strategies include a major investment in local water production facilities, wastewater treatment and disposal facilities, and contractual obligations and commitments.

In order to protect the District's investment in its various assets and satisfy its commitments under its numerous financial, regulatory, and contractual obligations; the District has developed and segregated a number of cash reserves funds. The efficient and discrete management of these reserves, when combined with their appropriate fortification add additional assurance that the current levels of service reliability and quality that the District's ratepayers have grown to expect will continue into the future.

Based upon prudent financial management practices and required by legal, legislative and contractual obligations, the appropriate level and separation of reserves is critical to the financial health of the District. When reserve levels fall below acceptable levels, additional costs are incurred resulting in the delay or discontinuance of critical programs. Likewise, when reserve types and their uses are poorly defined, then the setting aside and/or segregation of these funds becomes more difficult, and the integrity of their use may deteriorate. This policy defines required fund types for segregation purposes and their funding levels that is based upon the District's unique operating, capital investment and financial plans.

The District will maintain reserve funds, for example, so as to provide cash working capital for normal and ordinary operations, funds required by law, ordinance and bond covenant, necessary funds for the scheduled and unscheduled repair and replacement of capital infrastructure so as to maintain reliable service to its customers, to stabilize rates, and to provide a prudent amount of insurance against economic downturns and emergencies.

II. TYPES OF RESERVES

The District's reserves will be separated into two basic categories: (a) Legally Restricted Reserves; and (b) Board Restricted Reserves.

C A S H R E S E R V E S P O L I C Y

Each of the District's reserves, to the extent possible, will be established utilizing the following criteria: (a) Distinguish between legally restricted and board restricted cash and cash equivalent assets; (b) Contain a defined and distinct purpose; (c) Contain a target level or range with a minimum and maximum; (d) Identify events or conditions that prompt the use of the reserve; and (e) Specify periodic review dates for balances.

Balances shall be maintained in amounts sufficient to meet minimum reserve targets in cash and/or cash equivalents, and permitted investments.

III. LEGALLY RESTRICTED RESERVES. Legally Restricted Reserves are established and utilized for narrowly defined purposes and are protected by law or covenant. The District's Legally Restricted Reserves are:

A. Debt Reserves Cash reserves accounts for all debt instruments, not limited to bonds, SRF, etc., shall be fully funded in the timeline reflected in current and future bond covenants. The appropriate reserves shall be formally transferred and restricted in accordance with all legal requirements.

B. System Growth Reserves This fund aggregates all fees collected by the District from the charges levied against new growth in water and sewer connections to the District. This fund is used to offset capital projects or debt service related to new development in the District.

C. Employee Benefits [need to add CALPERS retirement benefit reserve language]

Definition and Purpose – Established to account for accrued and unpaid employee benefit liabilities, including: Vacation Days, Sick Days, Unemployment Benefits, Medical Benefits.

Conformity to Benefit Plans – The District shall maintain a sub-account for each separate employee benefit in accord to the District Human Resources Policies.

Target Level – *Vacation Days* = 100% of the accrued liability; *Sick Days* = 75% of the accrued liability; *Unemployment Benefits* = Funded at a level equal to the expected annual requirement, subject to a minimum of \$50,000; *Medical Benefit liabilities* should be funded in accord with GASB 45 regulations.

Events or Conditions Prompting the Use of the Reserves – Vacation days, sick days and medical benefits shall be distributed when used or qualified, in accordance with District

Human Resources Guidelines. Unemployment benefits shall be distributed when used or qualified, in accordance with applicable state laws or guidelines.

Periodic Review Dates for Balances – Reserve balances will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

IV. BOARD RESTRICTED RESERVES

A. Operating Reserves. The purpose of the Operating Reserves is to ensure that operations can continue if there are events that impact cash flow.

1. Working Capital Reserves

Definition and Purpose – This fund reflects three sub-reserve funds: (a) Operations & Maintenance (O&M) reserves; (b) Capital Improvement Program (CIP) reserves; and (c) Contingency reserves. The purpose of each of these reserves is to cover temporary cash flow deficiencies caused by timing differences between revenues and expenditures.

Target Level – (a) O&M reserves shall be targeted at an amount equal to three (3) to six (6) months of the District’s budgeted total operating expense, but not less than 150% to 200% of the maximum (projected) annual operating deficit. (b) CIP reserves shall be targeted at twenty-five (25%) percent of the three-year average of CIP expenditures during that period. (c) Contingency reserves shall be targeted at one (1%) to ten (10%) percent of the District’s total operating expenses. These levels should be increased as the level of economic uncertainty increases.

Events or Conditions Prompting the Use of the Reserves –This reserve may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses. These reserves can also be used to cover unanticipated cash operating expenses or lower than expected revenue collections.

Periodic Review Dates for Balances –Reserve balance and target level will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

2. Rate Stabilization Fund

Definition and Purpose – The Rate Stabilization Fund is used to stabilize rates to the extent possible. For example, climatic variability is one of the biggest financial challenges to water districts. Years that are cooler and wetter than normal can lead to significantly reduced revenue, particularly when a district has a rate structure with a seasonal surcharge component.

Target Level – The reserve shall be maintained at level of thirty (30%) percent of the revenue generated from the commodity rate for water services and thirty (30%) percent of the total revenues from sewer services.

Events or Conditions Prompting the Use of the Reserves – This reserve is intended to be used to defray any temporary unforeseen and extraordinary increases in the cost of water supply or sewage treatment. The Board of Directors, on a case by case basis, will determine the amount and timing for any use of the reserve.

Periodic Review Dates for Balances – Reserve balances will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

3. Emergency Reserves

Definition and Purpose – Established to cover costs not covered by the District's insurance policies; primarily major costs associated with natural disasters not reimbursable (fully covered) by the state or federal government programs.

Target Level – Funding shall be targeted at twenty-five (25%) percent of the replacement value of the District's critical assets as determined by the District's consulting engineering firm.

Events or Conditions Prompting the Use of the Reserves – The Board of Director's may designate use of this reserve after establishing that conditions exist as called out in the Definition and Purpose of the reserve.

Periodic Review Dates for Balances – Reserve balance and target level will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

B. Capital Reserves

1. Asset Replacement Reserves

Definition and Purpose - It is the intent of the District to comply with GASBS 34 modified method the set a spending level on system replacement such that the District will be able to provide reliable service in perpetuity. It is doubtful that this reserve will be sufficient to fund the entire replacement of the District's infrastructure and that a combination of pay-as-you-go and future debt borrowings will be required. The minimum balance of this fund should be established based on the ability to provide ongoing reliable water and sewer service.

Target Level – Funding shall be targeted to equal the amortized value of the total future replacement costs of the infrastructure required to provide District services. This amount shall be determined by an asset management study developed for this purpose by the District's consulting engineering firm.

Events or Conditions Prompting the Use of the Reserves – Staff will recommend assets to be replaced during the annual budget preparation. By action of the Board of Directors funds will be appropriated from the reserves for the purchase or construction of replacements. If during the year emergency replacements are necessary, the Board may amend the budget and appropriate funds as necessary to accomplish the replacement or refurbishment.

Periodic Review Dates for Balances – Reserve balances and replacement requirements will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual capital budget.

2. Groundwater Management Reserves

Definition and Purpose – Groundwater Management Plans (GWM) are prepared to ensure that groundwater resources in the Valley are managed in a fair, equitable and sustainable manner. The intent of this reserves is to accumulate the capital necessary to implement the District's Ground Water Management Plan and to fund its portion of the Department of Water Resources (DWR) and Board-approved Anza-Borrego Desert Integrated Regional Water Management plan (ABD-IRWM).

Target Level – As determined by the Board-approved GWM plan that is in conformance with the DWR and Board-approved ABD-IRWM plan.

Events or Conditions Prompting the Use of the Reserves – For achieving the implementation of the GWM plan and its time schedule for deliverables and achieved objectives

Periodic Review Dates for Balances – Annually by District staff and the Board of Directors during the preparation and approval of the annual capital budget.

3. Water Supply Reliability Reserves

Definition and Purpose – For the acquisition of new potable water supply, maintaining existing quantity and quality of supply, and conserving existing and new potable supplies.

Target Level – TBD

Events or Conditions Prompting the Use of the Reserves – When the reliability of the District’s water supply is threatened, either in terms of quantity or quality, the Board may choose to expend funds from this reserve to correct the situation.

Periodic Review Dates for Balances – Annually by District staff and the Board of Directors during the preparation and approval of the annual capital budget.

IV. OTHER RESERVE FUNDS. The District's Board may establish other cash reserve funds for specific needs that are over and above the reserves noted above as may be necessary from time to time.