



**Irvine Ranch
Water District**

February 7, 2023

Mr. Harvey De La Torre
Acting General Manager
Municipal Water District of Orange County
18700 Ward Street
Fountain Valley, CA 92708

Re: Comments on Revisions to MWDOC Reserve Policy and Distribution of Excess Funds

Harvey:

On February 8, MWDOC staff will review with the MWDOC Administration and Finance (A&F) Committee substantive recommended revisions to MWDOC's reserve policy and recommendations for the distribution of excess funds. The development of these recommendations was influenced by the four recent Reserve Policy Workgroup meetings that were conducted by MWDOC and facilitated by Brian Thomas. IRWD was an active participant in those meetings and appreciates MWDOC's commitment to soliciting member agency input. The purpose of this letter is to provide further input for the MWDOC Board of Director's consideration in setting target reserve levels and the distribution of excess funds.

Target Reserve Levels:

Brian Thomas' report that summarizes the workgroup meetings includes the recommendation to reduce the operating reserve target to 120 days from the current 180 days. Reducing the target to 120 days was not unanimously supported by the workgroup because it was demonstrated that reducing the target to 90 days could be feasible. In recognition of this possibility, we propose that the MWDOC Board proceed with reducing the target to 120 days for Fiscal Year (FY) 2023/24 and assess whether the target can be further reduced during the following budget cycle. Maintaining the flexibility to reduce the target level would be prudent and likely easy for the member agencies to support.

Distribution of Excess Funds:

The staff report for the upcoming A&F Committee meeting indicates that after target reserves are reduced to 120 days, there will be approximately \$2.6 million in excess funds that could be distributed in several ways. One option recommended by MWDOC staff is to hold \$1.0 million to support future projects and programs, which also could be used to address short-term water use efficiency (WUE) program cash flow needs. Consistent with IRWD's email from January 4, 2023, we suggest that MWDOC hold \$0.5 million instead of \$1.0 million for use in future

projects and programs and that short-term WUE cash flow needs be addressed separately. Holding more than \$0.5 million for projects and programs is unnecessary given MWDOC's ability to plan for projects and programs during its annual budget process. Addressing WUE cash flow needs separately allows crediting back funds to the member agencies once the short-term risks subside.

Accordingly, IRWD recommends the following for the disposition of the \$2.6 million in excess funds:

1. \$1.1 million to reduce MWDOC's unfunded CalPERS liability;
2. \$0.5 million to be credited to the member agencies at the beginning of FY 2023/24;
3. \$0.5 million to be credited to the member agencies in FY 2024/25 after the short-term WUE cash flow risks subside; and
4. \$0.5 million for projects and programs as determined by the MWDOC Board and supported by the member agencies.

Thank you for the opportunity to provide comments on proposed changes to MWDOC's reserve policy and for the distribution of excess funds. If you have any questions related to the comments provided, please contact me at (949) 453-5632. Please share a copy of this letter with the MWDOC Board of Directors.

Sincerely,



Paul A. Weghorst
Executive Director of Water Policy

cc: MWDOC Board of Directors