



Revised
ACTION ITEM
March 15, 2023

TO: Board of Directors

FROM: **Administration & Finance Committee**
(Directors Dick, Thomas, Crane)

Harvey De La Torre
Interim General Manager

Staff: Hilary Chumpitazi

SUBJECT: **Revisions to MWDOC's Reserve Policy & Distribution of Additional Funds**

STAFF RECOMMENDATION

It is recommended that the Board of Directors adopt the following:

1) Revisions to MWDOC's Administrative Code Section 2009 - Reserve Policy (A full detail description is shown in Attachment A). Below are some of the key revisions:

- Classify WEROC Reserves as a Restricted Reserve;
- Combine certain Designated Reserves into one "Operating Reserve" to cover emergencies, unexpected or unbudgeted expenses, and building expenses;
- Set this new "Operating Reserve" target equal to 120 days cash on hand;
- Classify OPEB Reserves as an Unrestricted Designated Reserve;
- Remove the Tier 2 Contingency Fund; and
- Rename several District's Reserves for clarification and better understanding.

2) Authorize staff to place all available funds, in excess of the newly established reserve fund targets, into the following categories and amounts:

- Reduce MWDOC's unfunded CalPERS liability by approximately \$1 million;
- Provide a credit of \$500,000 to the member agencies in FY 2023-24;
- Place the remaining funds (approximately \$1 million) into an undesignated fund for project/program that can be utilized in the near future for local cost share for WEROC Emergency Operations Center, and/or MWDOC Project/Programs such as a groundwater storage or banking program, as directed by the Board.

| | | | |
|--|-----------------------|----------|-----------|
| Budgeted (Y/N): N | Budgeted amount: None | Core _X_ | Choice __ |
| Action item amount: N/A | | | |
| Fiscal Impact (explain if unbudgeted): | | | |

COMMITTEE RECOMMENDATION

Committee recommends (To be determined at Committee Meeting)

REPORT

At the February 8, 2023, Administrative & Finance Committee, staff was asked to come back to the Committee and provide more clarification and information on the proposed revisions to the Reserve Policy as well as a walk through of how the “available funds” are determined.

Background

During last year’s budget review, MWDOC received a number of questions and comments on the District’s reserves, including funding targets and purpose. As a result of these inquiries, the Board established a workgroup comprised of member agency managers, MWDOC staff, and an Ad Hoc committee of two MWDOC Board members (Directors Seckel and McVicker). In addition, Brian Thomas, our consultant, was called up to facilitate these discussions and provide assistance to staff in preparation of these workgroup meetings.

A total of four (4) workgroup meetings were held between June and October 2022. The first two meetings focused on the District’s purpose and use of reserves, a review of all existing Restricted and Unrestricted reserves fund targets, and a breakdown of monthly revenue and expenses for the past year. The last two meetings concentrated on a review of MWDOC’s total cash reserves, estimated needs of reserves, and a review of the conservation fund balance and cash flow. There was also a thorough discussion on MWDOC’s revenue stream and financial risk.

From these meetings, the Workgroup suggested the following:

- Expand policy to clearly describe all available funds, including Restricted, Designated and Unrestricted Funds in the Admin Code & financial Reports.
- Combine General Operations, Grant & Project Cash Flow, and Building Reserves into one **“Operating Reserve”** to meet emergency costs, unbudgeted expenditures, working capital and cash flow needs.
- Set this new “Operating Reserve” target equal to **120 days cash on hand.**
- Retain Election and OPEB Reserve as a Designated Reserves.
- Classify the WEROC fund as a Restricted Reserve.
- Reduce the total Designated Reserves target fund amount.

Understanding of MWDOC’s Existing Reserves

Based on the feedback received from the Committee last month, it was suggested that before changes are described and approved that there is a clear understanding of the District’s existing reserves and their purpose.

The best report to illustrate the existing reserves and their balance is the “Consolidated Summary of Cash and Investment” form that is presented each month in the A&F Committee packet. For purposes of Reserve discussions, the workgroup used the June 30, 2022 Summary sheet because it best described the most recent year-end balance.



Municipal Water District of Orange County Consolidated Summary of Cash and Investment

June 30, 2022

Street Address:
18700 Ward Street
Fountain Valley, California 92708

Mailing Address:
P.O. Box 20895
Fountain Valley, CA 92728-0895

(714) 963-3058
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Megan Yoo Schneider, P.E.
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Bob McVicker, P.E., D.WRE
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Director

Sat Tamaribuchi
Director

Jeffrey M. Thomas
Director

Robert J. Hunter
General Manager

MEMBER AGENCIES

City of Brea
City of Buena Park
East Orange County Water District
El Toro Water District
Emerald Bay Service District
City of Fountain Valley
City of Garden Grove
Golden State Water Co.
City of Huntington Beach
Irvine Ranch Water District
Laguna Beach County Water District
City of La Habra
City of La Palma
Mesa Water District
Moulton Niguel Water District
City of Newport Beach
City of Orange
Orange County Water District
City of San Clemente
Santa Margarita Water District
City of Seal Beach
Serrano Water District
South Coast Water District
Trabuco Canyon Water District
City of Tustin
City of Westminster
Yorba Linda Water District

District investments and cash balances are held in various funds designated for certain purposes as follows:

| Fund | Book Value | % of Portfolio |
|---------------------------|---------------------|----------------|
| Designated Reserves | | |
| General Operations | \$3,738,505 | 32.64% |
| Grant & Project Cash Flow | 1,500,000 | 13.09% |
| Election Expense | 461,678 | 4.03% |
| Building Repair | 436,542 | 3.81% |
| OPEB | 297,147 | 2.59% |
| Total Designated Reserves | 6,433,872 | 56.16% |
| General Fund | \$3,219,989 | 28.12% |
| Water Fund | 1,801,613 | 15.73% |
| Conservation Fund | (470,376) | (4.11%) |
| WEROC Fund | 451,325 | 3.94% |
| Trustee Activities | 18,655 | 0.16% |
| Total | \$11,455,078 | 100.00% |

The funds are invested as follows:

| Term of Investment | % of Portfolio | Book Value | Market Value |
|---------------------------|----------------|---------------------|---------------------|
| Cash | 0.82% | \$201,426 | \$201,426 |
| Short-term investment | | | |
| • LAIF | 12.57% | 4,114,759 | 4,114,759 |
| • OCIP | 62.50% | 4,038,983 | 4,038,983 |
| Long-term investment | | | |
| • US Government Issues | 1.94% | 249,910 | 232,070 |
| • Corporate Bond | 10.89% | 1,400,000 | 1,303,113 |
| • Certificates of Deposit | 11.28% | 1,450,000 | 1,424,052 |
| Total | 100.00% | \$11,455,078 | \$11,314,403 |

The average number of days to maturity/call as of June 30, 2022 equaled 143 and the average yield to maturity is 1.118%. During the month, the District's average daily balance was \$21,541,847.52. Funds were invested in US Bank Checking Account, Negotiable Certificate of Deposits, Corporate Bonds, US Government Issues, Local Agency Investment Funds (LAIF) and Orange County Investment Pool (OCIP) during the month of June 2022.

The (\$140,675) difference between the book value and the market value on June 30, 2022 represents the exchange difference if all investments had been liquidated on that date. Since it is the District's practice to "buy and hold" investments until maturity, the market values are a point of reference, not an indication of actual loss or gain. There are no current plans or cash flow requirements identified in the near future that would require the sale of these securities prior to maturity.

Robert J. Hunter
General Manager

Hilary Shumpitzi
Treasurer

As shown the Existing Designated Reserves are as follows:

| Fund | Book Value | % of Portfolio |
|---------------------------|-------------|----------------|
| Designated Reserves | | |
| General Operations | \$3,738,505 | 32.64% |
| Grant & Project Cash Flow | 1,500,000 | 13.09% |
| Election Expense | 461,678 | 4.03% |
| Building Repair | 436,542 | 3.81% |
| OPEB | 297,147 | 2.59% |
| Total Designated Reserves | 6,433,872 | 56.16% |

- **General Operations** - Fund emergency expenditures, unbudgeted & unanticipated costs, and working capital.
- **Grant & Project Cash Flow** - Covers trailing payments for District funds for WUE and/or project payments from MET, Federal, & State grants payments.
- **Election Expense** - Manages election costs for Directors; and funds are updated each year to reflect changes in current election costs.
- **Building Repair** - Adjusted time to time to reflected Office needs & improvements.
- **OPEB** - The Board requested to fully fund the OPEB liability by creating this reserve. This reserve will be evaluated every two years to remain fully funded.

The other remaining reserves are as follows:

| | | |
|--------------------|-------------|---------|
| General Fund | \$3,219,989 | 28.12% |
| Water Fund | 1,801,613 | 15.73% |
| Conservation Fund | (470,376) | (4.11%) |
| WEROC Fund | 451,325 | 3.94% |
| Trustee Activities | 18,655 | 0.16% |

- **General Fund** - Funds used to pay for District annual operating expenses. Revenue generated from this fund includes annual meter charges & GW charge.
- **Water Fund** - Fund that holds amounts paid by MAs for water purchases in advance of the MET payment date and the Tier 2 Fund.
- **Conservation Fund** - Includes grants, MET & MA payments for WUE. These funds may have a negative balance as MWDOC pays upfront for Rebates and invoices.
- **WEROC Fund** – Covers Annual Operating & Capital funds for WEROC activities. Will be classified as a Restricted Fund.
- **Trustee Activities** - Hold funds for specific trustee activities, such as the AMP.

Revisions to MWDOC's Designated Reserves

The workgroup suggested that with low financial risk, because MWDOC receives most of its revenue in the early months of the fiscal year and the unlikelihood of all the financial risk situations identified happening concurrently, that MWDOC combine certain designated reserves (i.e., General Operating, Grants & Project and Building reserves) into one operating reserve fund to cover such unanticipated expenditures and emergencies. Moreover, it was suggested to reduce the fund target from 180 days cash on hand to 120 days.

The workgroup agreed to retain the Election and OPEB reserves as is. Therefore, the final revisions to the **Designated Reserves would conclude with three funds** with the following purpose & description:

- **Operating Reserve** - The Operating Reserve is established to fund emergency expenditures, unbudgeted and unanticipated costs, and provide working capital if needed. MWDOC has established a target for the Operating Reserve to equal 120 days cash on hand.
- **Election Reserve** - The Election Reserve is managed to fund seven elections every four years. The estimated cost of elections and needed reserve levels shall be updated annually as part of the budget process. If the amounts in the Election Reserve exceed the estimated costs, the Board may consider other uses that would lower the long-term costs of the District.
- **OPEB Reserve** - The Board requested staff to fully fund the OPEB liability in 2016. The Actuarial recommendation is to fund between 85%-95% of the liability and put the remaining amount in a reserve fund, as to not overfund the OPEB trust. This recommendation was implemented in September 2016 with the reserve balance of \$209,000 to equal MWDOC's Unfunded Liability at that time. The reserve will be re-evaluated every two years beginning in 2018 after each actuarial study, and funds may be transferred to the OPEB trust to stay within the funding range.

Staff noted approving these proposed changes to the Designated Reserves, as well as reducing the fund target to 120 days, would result in a difference of approximately \$1.85 million in available funds as shown below:

| | | FY 2022-23 | FY 2022-23 | |
|-------------------------|-------------|-------------------------------|--------------------------------|------------------------|
| Designated Reserves | # Days Cash | Current Reserve 180 Days Cash | Proposed Reserve 120 Days Cash | Difference in Reserves |
| Operations | 120 | \$ 5,675,047 | \$ 3,819,350 | \$ 1,855,697 |
| Election Reserve | N/A | 461,678 | 461,678 | - |
| OPEB Reserve est.9/2018 | N/A | 297,147 | 297,147 | - |
| TOTALS | | \$ 6,433,872 | \$ 4,578,175 | \$ 1,855,697 |

Revisions to MWDOC's Other Reserves

With the other remaining reserves, it was recommended to make the following revisions for clarity and better understanding:

- Change the General Fund to ***"General Operations Fund"*** - Revenues are deposited in the General Operations Fund and are used to pay for annual operating expenses. Revenues include annual meter and groundwater charges generally paid in the first quarter of the fiscal year. Each year as part of the annual budget process, MWDOC will estimate commitments, liabilities and other carryover obligations to be retained in the General Operations Fund. Any amounts in excess of these liabilities and carryover amounts may be used for any legal purpose in the following budget year, including offsetting budgeted costs, credits or refunds to MWDOC member agencies, pre-payment of pension obligations, or any other purpose as determined by the MWDOC Board of Directors.

- Change from Water Fund to **“Water Purchase Payments Fund”** - Amounts paid by MWDOC member agencies for water purchases in advance of the date payments are due to the Metropolitan Water District are held in the Water Purchase Payments Fund.
- **Classify the WEROC Fund to a Restricted Reserve** due to its funds being exclusively used for WEROC activities only. WEROC reserves include annual operating and capital funds held for WEROC purposes. All revenues and expenditures for WEROC purposes flow through the WEROC Reserve. WEROC reserves fluctuate on an as needed basis with some reserves held for unforeseen expenses and to enhance infrastructure and emergency systems. The WEROC expenditures and reserve are approved by the MWDOC Board and the WEROC contracted contributors.
- **Conservation Fund** - The Conservation Fund includes grants and MET and member agency payments for Water Use Efficiency projects and programs. Funds from the Conservation Fund are used to meet Water Use Efficiency and conservation program costs. The Conservation Fund may have a negative balance as MWDOC pays upfront for rebates and invoices for reimbursement.
- **Trustee Activities** – This fund holds deposits from Member Agencies for specific trustee activities (e.g., activities associated with the Allen McCulloch Pipeline), and any unused funds will be returned to the Member Agencies who provided funding.

In analyzing what other reserve funds are available, in addition to the \$1.855 million from the changes in the Designated Reserves, it was pointed out that only the “General Operations Fund” has funds available. All the other reserve funds are inaccessible and cannot be used for other purposes.

To calculate the available funds in the General Operations Fund, it is important to remove certain liabilities, which are deposits, accruals & Accounts Payable owed at the end of the year, as well as the prior year’s project carryover balance.

As of June 30, 2022

| | |
|---|--------------------|
| General Operations Fund | \$3,219,989 |
| Total of Deposits, Accruals & AP owed at year end | (\$1,976,900) |
| Prior year’s carryover | <u>(\$571,572)</u> |
| Net Amount Available | \$671,517 |

Availability of Funds & Potential Use

Adding the \$1.85 million from the change in the designated reserves & target fund level to the \$671,517 in net General Operations funds, the **total available dollars equals \$2.527 million**.

Staff suggested to the Committee that the following categories be presented as options for the Board’s consideration in the potential use of such available funds:

- Reduce MWDOC’s unfunded CalPERS pension or OPEB liability
- Provide credit/refunds for the member agencies
- Use for projects/programs as determined by the Board

The following key comments were noted during the A&F Committee & workgroup discussions:

- Support for the proposed revisions to the Reserve Policy
- A few members recommended 90 days instead of the proposed 120 days cash on hand for the proposed Operating Reserve fund target
- Support for additional funds being applied towards MWDOC's pension liability, in particular CalPERS,
- Discuss with OCWD the opportunity to utilize a portion of these additional funds to per-purchase and/or store water into the Orange County Basin for future use by retail agencies throughout the County.
- Provide a credit back to the member agencies; however, such a credit should be done gradually (over several years) and not all at once.

Staff also received the following written comments from the member agencies:

- Appreciate the workgroup process and concurred with the conclusions of the report
- Support reducing the fund target from 180 days to 120 days; and assess in the future
- If there excess reserves of up to \$2.6 million (at the end of FY 22/23), they should be distributed as followed:
 - \$1.1 million to reduce MWDOC's unfunded CalPERS liability;
 - \$500,000 to be credited the member agencies in FY 23/24;
 - \$500,000 to be credited the member agencies in FY 24/25 after WUE cash flow risk subside; and
 - \$500,000 for projects/program as determined by the MWDOC Board and supported by the member agencies.

Staff Recommendations

MWDOC Reserve Policy

In consideration of all the feedback received, staff recommends the Board adopt the following key changes to the MWDOC Reserve Policy:

- Classify WEROC Reserves as a Restricted Reserve;
- Combine certain Designated Reserves into one "Operating Reserve" to cover emergencies, unexpected or unbudgeted expenses, and building expenses;
- Set this new "Operating Reserve" target equal to 120 days cash on hand;
- Classify OPEB Reserves as an Unrestricted Designated Reserve;
- Remove the Tier 2 Contingency Fund; and
- Rename several District's Reserves for clarification and better understanding

These revisions to the policy achieved general consensus from the workgroup and the Committee. It provides the District with financial stabilization and flexibility, while aligning with the financial needs of the District.

Although we have received a few comments to reduce the proposed 120 days cash on hand to 90 days for the Operating Reserve. Staff finds the combination of the general operation, grants and project, and Building fund into the new operating reserve is already a

60 day reduction from its current target of 180 days, which significantly reduces the fund target close to 20% of District's total cash and investment.

Use of Additional Funds

These proposed changes will lower the District's total reserve fund and provide approximately \$2.527 million in available funds at the end of FY 2022-23. Based on the feedback received, staff recommends the Board authorize staff to place such additional funds into the following categories at the following level/amounts:

- Reduce MWDOC's unfunded CalPERS liability by approximately \$1 million
 - Staff will need to work with CalPERS to determine the exact liability amount as well as payment method (i.e. 115 trust or pre-payment to CalPERS). These additional funds will help MWDOC reach or maintain the recommend fund amount of 85-90%.
- Provide a credit of \$500,000 to the member agencies in FY 2023-24
 - Similar to the Tier 2 credit, this credit will be disbursed to the member agencies at the beginning of FY 2023-24
- Place the remaining funds (approximately \$1 million) into an undesignated fund for project/program that can be utilized in the near future for local cost share for WEROC Emergency Operations Center, and/or MWDOC Project/Program such as pre-purchase imported water for groundwater storage or banking program.
 - On June 15, 2022, the Board set aside up to \$1 million of reserves for a 25% local cost share in pursuit of federal funds (See Attachment C)
 - Depending on the decisions for the WEROC building expense or feedback from OCWD on creating a groundwater storage or banking program with MWDOC, will determine the exact use of such funds.
 - Consistent with the MA facilitated discussions, such use of available funds for any MWDOC project/program will be reviewed and consulted with the MWDOC member agencies.
 - If funds remain due to a lack of use, staff will come back to the Board for further direction.

ATTACHMENTS

- A. Proposed MWDOC Reserve Policy (Administrative Code Section 2009)**
- B. Existing MWDOC Reserve Policy (Administrative Code Section 2009)**
- C. June 15, 2022 Action Board Item – Homeland Security Appropriations Subcommittee – WEROC Emergency Operation Center – Approval of 25% Local Non-Federal Matching Funds**
- D. Irvine Ranch Water District Letter on MWDOC Reserves, February 7, 2023**

BOARD OPTIONS

Option #1 – Adopt the proposed revisions to MWDOC's Administrative Code 2009 - Reserve Policy, as described in Attachment 1, **AND** authorize staff to place additional funds into the following categories at the following level/amounts:

- Reduce MWDOC's unfunded CalPERS liability by approximately \$1 million;
- Provide a credit of \$500,000 to the member agencies in FY 2023-24;

- Place the remaining funds (approximately \$1 million) into an undesignated fund for project/program that can be utilized in the near future for local cost share for a WEROC Emergency Operations Center, and/or MWDOC Project/Programs such as pre-purchase Imported water to be placed into a groundwater storage or banking program, as directed by the Board

Option #2 – Adopt **ONLY** the proposed revisions to MWDOC’s Administrative Code 2009 - Reserve Policy, as described in Attachment A, and defer any action on the distribution of additional funds to a later date.

Option #3 – Do not adopt any revisions to Reserve Policy and maintain the existing Policy as described in Attachment B.

STAFF RECOMMENDATION

Option # 1

PROPOSED MWDOC RESERVE POLICY

(As of March 6, 2023)

Administrative Code Section 2009 Reserve Policy

Reserves include all cash and investments held by MWDOC. Reserves are categorized as follows:

- a. **Unrestricted – Designated** - These reserves have been established for specific purposes as Designated by the Board of Directors.
- b. **Unrestricted** - Funds in unrestricted and undesignated reserves may be used for any purpose, including funding general operations, water use efficiency programs and capital expenditures.
- c. **Restricted** - Restricted reserves are funds whose use is governed by statute or other legal restrictions such as bond covenants, contracts, etc.

Restricted

- a. **WEROC Reserve** - WEROC reserves include annual operating and capital funds held for WEROC purposes. All revenues and expenditures for WEROC purposes flow through the WEROC Reserve. WEROC reserves fluctuate on an as needed basis with some reserves held for unforeseen expenses and to enhance infrastructure and emergency systems. The WEROC expenditures and reserve are approved by the MWDOC Board and the WEROC contracted contributors.

Unrestricted – Designated

- a. **Operating Reserve** - The Operating Reserve is established to fund emergency expenditures, unbudgeted and unanticipated costs, and provide working capital if needed. MWDOC has established a target for the Operating Reserve to equal 120 days cash on hand.
- b. **Election Reserve** - The Election Reserve is managed to fund seven elections every four years. The estimated cost of elections and needed reserve levels shall be updated annually as part of the budget process. If the amounts in the Election Reserve exceed the estimated costs, the Board may consider other uses that would lower the long-term costs of the District.
- c. **OPEB Reserve** - The Board requested staff to fully fund the OPEB liability in 2016. The Actuarial recommendation is to fund between 85%-95% of the liability and put the remaining amount in a reserve fund, as to not overfund the OPEB trust. This recommendation was implemented in September 2016 with the reserve balance of \$209,000 to equal MWDOC's Unfunded Liability at that time. The reserve will be re-evaluated every two years beginning in 2018 after each actuarial study, and funds may be transferred to the OPEB trust to stay within the funding range.

Unrestricted

- a. **General Operations Fund** – Revenues are deposited in the General Operations Fund and are used to pay for annual operating expenses. Revenues include annual meter and groundwater charges generally paid in the first quarter of the fiscal year. Each year as part of the annual budget process, MWDOC will estimate commitments, liabilities and other carryover obligations to be retained in the General Operations Fund. Any amounts in excess of these liabilities and carryover amounts may be used for any legal purpose in the following budget year, including offsetting

budgeted costs, credits or refunds to MWDOC member agencies, pre-payment of pension obligations, or any other purpose as determined by the MWDOC Board of Directors.

- b. **Water Purchase Payments Fund** - Amounts paid by MWDOC member agencies for water purchases in advance of the date payments are due to the Metropolitan Water District are held in the Water Supply Fund.
- c. **Conservation Fund** - The Conservation Fund includes grants and MET and member agency payments for Water Use Efficiency projects and programs. Funds from the Conservation Fund are used to meet Water Use Efficiency and conservation program costs. The Conservation Fund may have a negative balance as MWDOC pays upfront for rebates and invoices for reimbursement.
- d. **Trustee Activities Fund** – This fund holds deposits from Member Agencies for specific trustee activities (e.g., activities associated with the Allen McCulloch Pipeline) and any unused funds will be returned to the Member Agencies who provided funding.

(b) The Board may consider changes in the Policy of utilizing these funds to pay for the Tier 2 purchases differential based on the circumstances that are involved at such time as MWDOC purchases exceed the Tier 1 limit. The Tier 2 Contingency Fund was established within MWDOC to provide a regional mechanism to fund purchases above the Tier 1 limit such that any single MWDOC Member Agency would avoid direct exposure. Also, it avoided the need for MWDOC to allocate a Tier 1 limit to its Member Agencies. Tier 2 purchases can be triggered by a number of events in the County such as large purchases of water into Irvine Lake, large purchases of water for groundwater replenishment and large purchases of imported water due to a decrease in the OCWD Basin Production Percentage (BPP). Based upon how such circumstances arise, the Board may consider changes to this policy if they determine there is a more appropriate manner of dealing with Tier 2 costs. MWDOC's A&F Committee and Board reviewed the issues of Tiered or Melded Water Rates for Tier-1 and Tier-2 purchases from MET in November 2004, and retained the Melded Rate, with a provision for further review should OCWD's BPP fall below 60% in the future.

4. **Disposition of Excess Funds:** After the conclusion of each calendar year, the General Manager will review the year end Tier 2 Fund Balance (adjusted for certifications of non firm water purchases) and report this amount to the Board of Directors. The Board may consider issuing a credit to the member agencies. In the event credits are to be provided, the credit will be provided to each member agency either in check form or as a credit on the monthly water invoice (at the choice of the member agency).

M-6/19/02; M-6/17/15

§2009 RESERVE POLICY –

The MWDOC Reserve Policy categorizes the reserves as follows:

Unrestricted Reserves

- General Operations
- Grant & Project Cash Flow
- Election Expense
- Building Repair

Restricted Reserves

- OPEB
- Tier 2 Contingency Fund

WEROC Reserves

- Operational Reserve
- Capital Reserve

Reserve Fund Targets in Days Cash on Hand

| | |
|---|-------------|
| Working Capital Reserve | |
| (General Operations, plus Grant & Project Cash Flow): | 90-180 days |
| Building Repair: | 10-15 days |
| Tier 2 Contingency Fund | 40 days |

The Election Expense and OPEB are designated and are maintained separately to cover specific liabilities.

Unrestricted Reserves

General Operations Reserves:

Depending upon end of year cash flow, grant payments and other factors influencing the District's cash balance the General District Reserve should increase by the inflation rate each year.

Grant & Project Cash Flow:

In the past, trailing payments for District funds advanced for water use efficiency payments from MET and Federal and State grants payments have increased. The reserve should be replenished from trailing grant payments as they occur, and from rates if needed. Cash flow reserves should be reviewed from time to time for appropriateness based on the District's current operational needs.

Election Expense:

MWDOC's election reserve shall be managed to fund seven elections every four years. Based on the year 2016 election costs we have determined that \$1.22 million (or \$174,000 per division) is sufficient to cover seven elections. This requires that \$304,000 be contributed to the election reserve annually. These estimates will be updated annually as part of the budget process. In the event the election funds are not fully utilized, the Board may consider other uses that would lower the long-term costs of the District.

Building Repair:

MWDOC Building Reserves should be kept at a minimum of \$350,000 and adjusted from time to time to reflect the improvement needs of the office facility.

Restricted Reserves

OPEB:

Staff examined the demographics of MWDOC's OPEB liability and estimated that the bulk of the liability will occur by 2023 as long term MWDOC employees who had access to lifetime medical coverage retire. The Board requested staff to fully fund the OPEB liability in 2016. The Actuarial recommendation is to fund between 85%-95% and put the remaining amount in a reserve fund, as to not overfund the OPEB trust. This recommendation was implemented in September 2016 with the reserve balance of \$209,006 to equal our current Unfunded Liability. This reserve will be re-evaluated every two years beginning in 2018 after each actuarial and funds may be transferred to the OPEB trust to stay within the funding range.

Tier 2 Contingency Fund:

MWDOC has established the Tier Two Contingency fund to pay the difference between MET's Tier One and Tier Two water rates, in the event MWDOC's water purchases from

MET exceed the Tier One block of allowable purchases. From time to time it may be necessary to increase the level of funds, or to reduce the level of funds being held by MWDOC. The MWDOC Board established the minimum fund target at approximately 40 days or \$1,000,000, due to the diminished likelihood of purchasing MET water above the Tier 1 limit.

WEROC Reserves

WEROC reserves fluctuate on an as needed basis with Operational Reserve being held for unforeseen expenses and a Capital Reserve to enhance infrastructure and emergency systems. Both reserves are approved by the MWDOC Board and the WEROC contracted contributors.

M-4/19/06; M-6/16/10; 6/1/11 (Settlement Agreement); M-6/17/15; M-6/21/17



ACTION ITEM

June 15, 2022

TO: Board of Directors

FROM: **Administration & Finance Committee**
(Directors: Seckel, Thomas, Dick)

Robert Hunter,
General Manager

Staff Contact: Vicki Osborn
Heather Baez

SUBJECT: Homeland Security Appropriations Subcommittee - WEROC Emergency Operations Center – Approval of 25% Local Non-Federal Match Funding

STAFF RECOMMENDATION

Approve the Committee recommendation.

COMMITTEE RECOMMENDATION

The item was introduced as an informational item during A&F. The Committee recommended this go to the Board Meeting as an action item recommending the Board approve MWDOC underwriting the remaining 25% local cost share requirement for non-federal funds (Option 1) to pay for the WEROC Emergency Operations Center.

SUMMARY

With Senator Padilla's office submission of the Emergency Operations Center (EOC) for the Water Emergency Response Organization of Orange County (WEROC) project to the Senate Appropriations Committee, the WEROC EOC project has made it over the first hurdle to qualify and receive Fiscal Year 2023 Homeland Security Appropriations Funding. The Senate Appropriations Committee will be submitting their earmarks this month.

With that, the Homeland Security Appropriations Subcommittee reached out to Senator Padilla's office to ensure this project meets the federal cost share limit. The maximum federal cost share for EOC projects is 75%. Meaning the remaining 25% is a local cost

| | | | |
|--|----------------------|------------|-----------|
| Budgeted (Y/N): N/A | Budgeted amount: N/A | Core __ | Choice __ |
| Action item amount: 650,000 – 1, 000,000 | | Line item: | |
| Fiscal Impact (explain if unbudgeted): See BA in Option 1 & 2 | | | |

share. On June 4, an inquiry was made to MWDOC/WEROC if this project has funding in place for the 25% non-federal local cost share funding required for this project to be considered.

The WEROC EOC application mentions the following:

- The total estimated cost for WEROC to build a new structure that addresses the shortcomings in the site facility assessment ensuring that the EOC can continue provide critical public services is approximately \$3 million.
- This project can be successfully implemented with Federal Support funding of \$2 million.

At the A&F committee meeting on June 8, during the reserve discussion this immediate request for information was conveyed to the committee and board as it was not on the agenda due to the timing of the request from our federal partners last week. The A&F Committee recommended an action item be place on the June 15 Board Agenda.

On June 8, WEROC notified the member agencies General/Utility Managers by email of this board action item being added to the June 15 agenda. Under normal circumstances and processes, WEROC would brief the member agencies on this item at the MWDOC Managers meeting. However, due to the immediate request of information in order to qualify for the federal funding, WEROC was unable to brief agencies following the normal process.

More information will be provided on the status of this project as it progresses. Additionally, staff will continue to pursue outside non-federal local cost share funding.

BOARD OPTIONS

Option #1

- Approve MWDOC will underwrite the remaining 25% local cost share requirement for non-federal funds.

Business Analysis: MWDOC approval to fund the 25% non-federal local cost share allows this project to move forward to seek Fiscal Year 2022-23 Homeland Security Appropriations Funding. If no other non-federal share funding is obtained, the MWDOC Board will make a final decision if the 25% funding should come from MWDOC reserves.

Option #2

- The board does not approve MWDOC to fund the remaining 25% non-federal local cost share.

Business Analysis: The project will be unable to move forward in the Homeland Security Appropriations committee and will not be eligible to receive Homeland Security Appropriations Funding.

STAFF RECOMMENDATION

Option # 1



**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