



# REVISIONS TO MWDOC'S RESERVE POLICY & USE OF ADDITIONAL FUNDS



March 8, 2023  
Administration & Finance Committee






- At the last A&F, the Committee asked staff to come back and provide more clarity & information on the proposed revisions to the Reserve Policy as well as how the “available funds” are determined

# Agenda




- 01** Workgroup Results & Suggestions
- 02** Comparison of the Existing Reserve v. New Reserve Policy
- 03** Determination & Use of Available Funds
- 04** Staff Recommendations



## **Workgroup meetings (Total of 4 Mtgs.) discussed and focused on:**

-  District's purpose and use of reserves
-  Review of Reserve fund targets
-  Breakdown of monthly revenue and expenses
-  Review of total cash reserves
-  Estimated and Projected need of Reserves

## **Discussions on District's Revenue Stream & Financial Risk**

-  MWD OC's revenue stream relatively stable under existing rate structure
-  Financial Risk is low
-  Combine certain designated reserves to cover unanticipated emergencies

## Based on the Workgroup's discussions, the following was suggested:

- ☑ 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

# Existing Reserves

Each month Staff provides a breakdown of all Reserves, Cash amounts and investments in its Cash & Investment Report

For the purposes of Reserve Discussions, we used the Year End Balance – June 30, 2022



## Municipal Water District of Orange County Consolidated Summary of Cash and Investment June 30, 2022

Street Address:  
18700 Ward Street  
Fountain Valley, California 92708

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P.O. Box 20895  
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Karl W. Seckel, P.E.  
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
- Trebaco 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
<b>Designated Reserves</b>		
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%
<b>Total Designated Reserves</b>	<b>6,433,872</b>	<b>56.16%</b>
General Fund	\$3,219,989	28.12%
Water Fund	1,801,613	15.73%
Conservation Fund	(470,376)	(4.11%)
WERO Fund	451,325	3.94%
Trustee Activities	18,655	0.16%
<b>Total</b>	<b>\$11,455,078</b>	<b>100.00%</b>

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
<b>Total</b>	<b>100.00%</b>	<b>\$11,455,078</b>	<b>\$11,314,403</b>

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 Chimpitazi  
Treasurer



# Existing Designated Reserves



As of June 30, 2022

## Workgroup Reviewed the Existing Designated Reserves:

- 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** - Assist in achieving the Board request to fully fund the OPEB liability

Fund	Book Value	% of Portfolio
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<b>Total</b>	<b>\$11,455,078</b>	<b>100.00%</b>

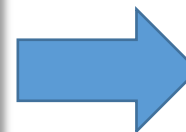
# Revisions to Designated Reserves



- 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. No need to have separate Categories
- Set this new “Operating Reserve” target equal to **120 days** cash on hand
  - Reduction from the existing 180 days target fund
- Retain Election and OPEB Reserve as well as their fund targets

## Existing Designated Reserves

Fund	Book Value
Designated Reserves	
General Operations	\$3,738,505
Grant & Project Cash Flow	1,500,000
Election Expense	461,678
Building Repair	436,542
OPEB	<u>297,147</u>
Total Designated Reserves	6,433,872



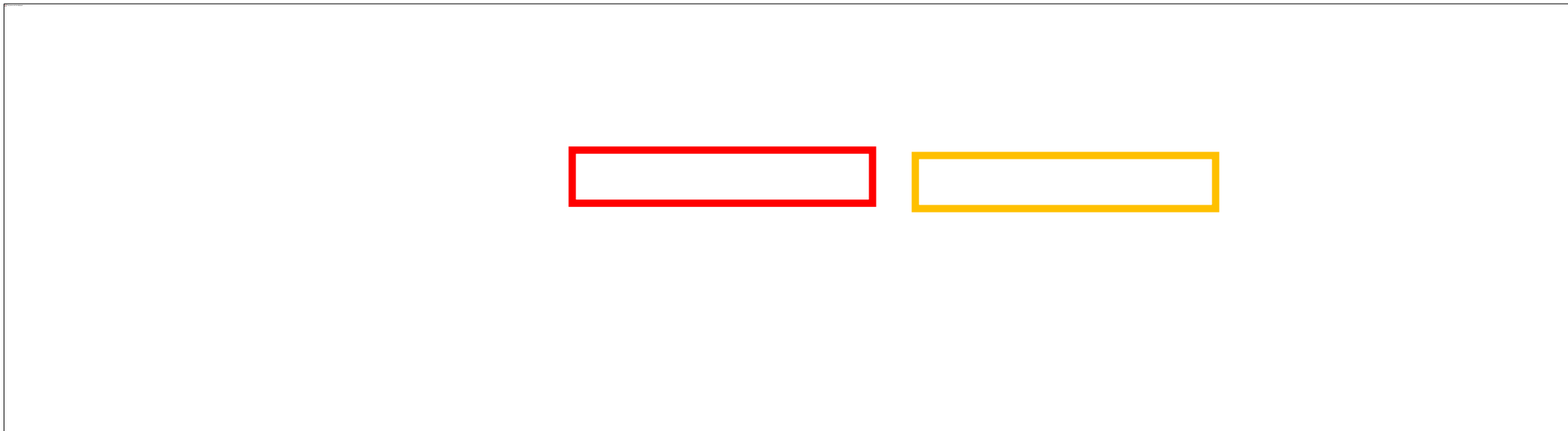
## Proposed Designated Reserves

Fund	
Designated Reserves	
Operating Reserves (120 days)	\$3,819,350
Election Reserves	\$461,678
OPEB Reserves	<u>\$297,147</u>
Total Designated Reserves	\$4,578,175



**The changes in the Designated Reserve fund target would result in \$1.855 million in “Available Funds”**

**As of June 30, 2022**



# Other Remaining Reserves



## Description of the other remaining Reserves:

- **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 Tier 2 fund
- **Conservation Fund** - Includes grants, MET & MA payments for WUE. These funds may have a negative balance as MWD OC pays upfront for Rebates and invoices
- **WEROC Fund** – Covers Annual Operating & Capital funds for WEROC activities. Restricted Fund
- **Trustee Activities** - Hold funds for specific trustee activities, such as the AMP

As of June 30, 2022

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	<u>297,147</u>	<u>2.59%</u>
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%
<b>Total</b>	<b>\$11,455,078</b>	<b>100.00%</b>

# Revisions to Reserves



As of June 30, 2022

**Workgroup asked for clearer description of all funds. Thus, Staff recommends to change the following:**

- Change the General Fund to ***“General Operations Fund”***
- Change the Water Fund to ***“Water Purchase Payment Fund”***
- Classify the WEROC Fund to a Restricted Reserve
- Trustee Activities – add AMP

Fund	Book Value	% of Portfolio
Designated Reserves		
General Operations	\$3,738,505	32.64%
Grant & Project Cash Flow	1,500,000	13.09%
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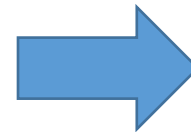
# General Fund's Available Funds



- During the Workgroup & Committee discussions, questions were raised as to what funds are available with these remaining reserves
  - Only the General Fund has funds available
- Staff calculated available funds by removing certain liabilities including total deposits, accruals & AP owed at the end of year as well as prior year's project carryover balance
- Net amount resulted in \$671,517 of "Available Funds" in the General Fund

As of June 30, 2022

General Fund	\$3,219,989
Water Fund	1,801,613
Conservation Fund	(470,376)
WEROC Fund	451,325
Trustee Activities	18,655



General 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

- 💧 **From the change in the reserve target fund and the Net undesignated funds, the total available dollars total \$2.527 million (\$1,855,697 + \$671,517)**
- 💧 **The following categories we presented as options for 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 and feedback from the Committee & Member agencies:**

- 💧 Support for the proposed revisions to the Reserve Policy
- 💧 A few recommending 90 days instead of the proposed 120 days cash on hand for the newly proposed Operating Reserve fund target
- 💧 Support for additional funds being applied towards MWD OC'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 received a letter from IRWD (Feb. 7, 2023)

- 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) \$1.1 million to reduce MWD OC's unfunded CalPERS liability;
  - 2) \$500,000 to be credited the member agencies in FY 23/24;
  - 3) \$500,000 to be credited the member agencies in FY 24/25 after WUE cash flow risk subsidy; and
  - 4) \$500,000 for projects/program as determined by the MWD OC Board and supported by the member agencies.

## Staff recommends the Board adopt the following changes to the MWD OC 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



**Staff recommends the Board authorize staff to place the available \$2.527 million into the following categories at the following level/amounts:**

- ☑ Reduce MWD OC'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 MWD OC Project/Programs such as pre-purchase Imported water to be placed into a groundwater storage or banking program, as directed by the Board

# Questions

