

WALNUT VALLEY WATER DISTRICT  
271 South Brea Canyon Road  
Walnut, California 91789

SPECIAL BOARD MEETING  
THURSDAY, JUNE 20, 2019 – 4:00 P.M.  
AGENDA

**NOTE: To comply with the Americans with Disabilities Act, if you need special assistance to participate in any Board meeting, please contact the General Manager's office at least 4 hours prior to a Board meeting to inform the District of your needs and to determine if accommodation is feasible.**

**Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance, to take action on any item.**

**Materials related to an item on this agenda submitted after distribution of the agenda packet are available for public review during regular business hours at the District office, located at 271 S. Brea Canyon Road, Walnut, California.**

1. Flag Salute
2. Roll Call: Mr. Ebenkamp\_\_\_\_ Mr. Hilden\_\_\_\_ Ms. Kwong\_\_\_\_ Ms. Lee\_\_\_\_ Mr. Tang \_\_\_\_
3. Public Comment President Hilden  
The Presiding Officer may impose reasonable limitations on public comments to assure an orderly and timely meeting.
  - A. **Agenda Items** - Any person desiring to address the Board of Directors on any Agenda item may do so at the time the item is considered on the Agenda by requesting the privilege of doing so at this time and stating the Agenda item to be addressed. At the time the item is discussed, those requesting to speak will be called to do so.
  - B. **Non-Agenda Items** - At this time the public shall have an opportunity to comment on any non-agenda item relevant to the jurisdiction of the District. Reasonable time limits on each topic and on each speaker are imposed in accordance with Board policy.
4. WVWD Strategic Vision Plan and Implementation - Presentation by Erin Gilhuly, President, CV Strategies
  - A. Discussion
  - B. Action Taken
5. Review of 2019 Rate Study
  - A. [Adoption of Revised Cash Reserve Policy and Approval of Transfer of Funds](#)
  - B. [Adoption of 20-Year Asset Replacement and Refurbishment Plan](#)
  - C. Discussion of Tier Width Consumption Data
    - (1) Discussion
    - (2) Action Taken
6. Other

Adjournment

# WVWD – Staff Report



**TO:** Board of Directors  
**FROM:** General Manager  
**SUBMITTED BY:** Assistant General Manager  
**DATE:** June 20, 2019  
**SUBJECT:** Adoption of Revised the Cash Reserve Policy and Approval of Transfer of Funds

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Action/Discussion       Fiscal Impact       Resolution       Information Only

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## Recommendation

That the Board of Directors approve:

1. The revised Cash Reserve Policy;
2. The transfer of funds in the amount of \$2,737,000 from the Operating Reserve to the Reserve for Replacement.

## Background

Prudent financial management dictates that the District maintains appropriate reserves for emergency use, capital projects, obligations accruing on a current basis that will be paid in the future and those required as a result of legal or external requirements. The purpose of the District's Reserve Policy is to articulate the reserve balances that should be maintained and the appropriate use of those reserve funds. The District's current reserves include those established by the Board for designated purposes, as well as those funds legally restricted by outside or external sources.

Staff has reviewed the current reserve policy and is recommending the following material changes:

1. Operating Reserve – The Operating Reserve was established to help ensure the District can provide and pay for essential services in cases where normal cash flows are interrupted. The minimum balance of this is currently equal to 35% of the current year operating budget, excluding purchased water and debt payments (currently \$5.167 million). Staff could certainly foresee an event that might impact cash flows in the short term, such as a billing system problem etc. However, staff believes any interruption in cash flows, is likely to be temporary and short in duration. As such, staff would recommend reducing funding for this reserve by changing the funding goal to be equal to the average of two months of operating expenses, based on the current fiscal year's operating budget, excluding purchased water and debt payments (currently \$2.43 million) If approved, staff would recommend the excess funds be transferred to the Reserve for Replacement.
2. Reserve for Replacement – Over the course of the past year, staff has spent countless hours updating the 20-Year CIP Plan. Staff believes the current version of that plan, is more comprehensive with improved estimates of future costs, which have been based in part on historical costs. Rather than establishing somewhat arbitrary goals based upon total replacement costs, staff is recommending the minimum and maximum funding levels be based solely on the 20-year CIP Plan. It is recommended that the minimum funding level be set at an amount equal to 5-years of replacement funding and that the maximum level be set at an amount equal to 10 years of funding, as detailed in the 20-Year CIP Plan.

3. Stored Water Reserve (New) – Over the course of the last several years the District, along with Rowland Water District, has made a substantial investment in untreated imported water which has been stored and is being produced and delivered through the Cal Domestic Project. Because the project can only produce water that has been purchased and stored in the Main Basin, the District must continually replenish its supply of stored water to ensure the project is able to operate. Staff, is recommending this reserve be established for the purpose of setting money aside for future stored water purchases. Unlike other reserves, which have established minimum and maximum funding levels, staff is recommending that an annual contribution equal to the cost of purchasing additional stored water (at the current MWD rate) be placed in the reserve. Initially, staff is recommending that the annual contribution be equal to the cost of purchasing a quantity of water equal to at least 50% of the water produced during the fiscal year. In determining the actual contribution staff will also consider its current balance of stored water along with anticipated production from the Cal Domestic Project
  - a. Example: During the year, the Cal Domestic Project produces a total of 2,000 acre-feet of water for the District. At the end of the year, the District would make a contribution of \$731,000 to the reserve.  $(2,000 \times 50\% = 1,000 \text{ af} \times \$731(\text{MWD Rate}) = \$731,000$ ).
4. Rate Stabilization Reserve – Due to the establishment of the Stored Water Reserve, certain language referencing water banking, or water purchases was removed.

Attachments:

*Existing Cash Reserve Policy (With redline changes)*

*Proposed Cash Reserve Policy*

*Cash Reserves as of May 31, 2019*

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## Cash Reserve Policy

### I. Policy Statement

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. The Walnut Valley Water District (District) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Reserve funds will be accumulated and maintained to allow the District to fund operating expense and capital expenditures in a manner that is consistent with its annual operating budget and capital improvement budget and to help minimize significant customer rate fluctuations due to changes in funding requirements.

The Board of Directors may designate specific reserve accounts and maintain certain balances that it has determined to be in the best interest of the District. The cash reserve policy as outlined in this document is intended to ensure that the District has sufficient funds to meet current and future needs.

### II. Definitions

There are three types of reserve funds:

- A. GENERAL ACCOUNT – Funds that accumulate from day-to-day operations that have not otherwise been designated or restricted.
- B. DESIGNATED RESERVES - Established by action of the Board and designated for specific purposes. These funds are utilized to fund such things as future capital facilities, repair and replacement of existing assets, economic uncertainties, local disasters and other financial hardships or downs in the local and nation economy.
- C. RESTRICTED RESERVES - Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws or regulations governing use.

### III. General Provisions

The District will maintain a separate accounting and invest reserve funds in a manner that insures financial soundness and provides transparency to its ratepayers. Such established reserves will be reviewed at least annually by the Board. If the annual review reflects actual or projected reserve levels that fall either 10% below or 10% above the levels prescribed in this policy, District staff shall provide an explanation of why reserve levels are not at the targeted level, and/or provide an identified course of action to bring reserve levels to the target amount.

#### IV. Reserve Levels and Management

##### GENERAL ACCOUNT

These are the funds that accumulate from day-to-day operations and represent funds that have not otherwise been designated or restricted. Typically, funds that accumulate during the year are then transferred to specific reserves at the end of each fiscal year. Interest generated by these funds is maintained within this account.

##### DESIGNATED RESERVES

A. **Operating Reserve** - The District maintains an Operating Reserve to help ensure the District can provide essential services in cases where normal cash flows are interrupted.

- Target Funding Level - The operating reserve shall maintain a balance equal to an average of two months of operating expenses based on the 35% (approximately four months) of the current fiscal year's operating budget, excluding purchased water costs and debt obligations. Interest generated by these funds shall be maintained within the General Account.
- Events or Conditions Prompting the Use of Reserve Funds – In cases where cash flows have been interrupted or are otherwise insufficient, these funds may be used for operating expenses, capital expenditures, or other purposes as authorized by the Board.

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B. **Capital Improvement Reserve** - The District maintains a Capital Improvement Reserve for the purpose of funding the acquisition and construction of new capital assets. This reserve fund is established for all new capital items or projects with a cost of \$5,000 or more and a useful life of five years or greater. Interest generated by these funds is allocated to and maintained within this reserve.

- Target Funding Level - The reserve for capital projects shall be maintained with a minimum balance equal to the estimated cost of all capital improvement projects approved by the Board through the regular budget process. On average the District needs approximately \$500,000 annually to fund new capital projects. The Capital Reserve will not exceed five years of capital funding totaling an estimated \$2,500,000.
- Events or Conditions Prompting the Use of Reserve Funds – Funds from this reserve can be used for any purpose deemed appropriate by the Board. Typically, funds will be used to construct or purchase assets as approved by the Board as part of the District's Capital Improvement Budget (CIP), or by separate Board action.

C. **Reserve for Replacement** - The District maintains a Reserve for Replacement to be used for funding the replacement or refurbishment of existing capital assets, including the District's buildings. This reserve fund is established for all replacement items with a cost of \$5,000 or more and a useful life of five years or greater. Interest generated by these funds is allocated to and maintained within this reserve.

▪ Target Funding Level - It is the intent of the District to maintain a balance sufficient to fund the immediate and long-term replacement costs of the District's assets. Target reserve levels are based on the District's 20-Year CIP Plan. The minimum funding level shall be equal to 5-years of replacement funding with a maximum reserve goal equal to 10-years of funding as detailed in the 20-Year CIP Plan. long term Asset Replacement Schedule covering a planning period of twenty years. Based on this schedule, the minimum fund balance at the end of the planning period should be at least \$16,000,000, or 2.0% of the replacement costs of all District assets. The projected reserve balance for any one year during the planning horizon should never be less than \$12,000,000, and the maximum projected reserve balance at the end of any twenty-year planning period should never exceed \$24,000,000, or 3% of the replacement costs of the District's assets.

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▪ Events or Conditions Prompting the Use of Reserve Funds – Funds from this reserve can be used for any purpose deemed appropriate by the Board. Generally, assets to be replaced will be included and approved by the Board as part of the District's annual CIP budget, or by separate action by the Board.

D. Stored Water Reserve - The District maintains a Stored Water Reserve for purposes of accumulating funds to purchase untreated imported water necessary to operate Water Supply Reliability Projects.

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▪ Target Funding Level – An annual contribution equal to the cost of purchasing a quantity of water equal to at least 50% of the water produced from the project during the year.

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▪ Events or Conditions Prompting the Use of Reserve Funds – As water become available from MWD, funds from this reserve will be used to purchase untreated imported water.

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D-E. Project Reserve - The District maintains a Project Reserve to ensure sufficient funding is available to fund components of the Regional Water Supply Project or District Headquarters projects that were initially expected to be funded through the issuance of debt but were substituted for other District projects. To ensure compliance with certain bond provisions, or for other identified reasons, the District may determine that it would be advantageous to fund certain "substitute projects" from bond proceeds rather than components of the Regional Water Supply Project or District Headquarters Project. In the event a "substitute project" is funded from bond proceeds, an amount equal to the actual expenses paid from bond proceeds will be moved from the reserve fund from which the "substitute project" was originally approved to the Project Reserve. Interest generated by this fund shall be maintained within the General Fund.

▪ Target Funding Level – There is no target level established for this reserve. Amounts in this reserve are dependent upon projects that have been substituted for use with Bond proceeds.

▪ Events or Conditions Prompting the Use of Reserve Funds – The funds in this reserve have been

set aside to fund components of the Regional Water Supply Project or District Headquarters Project as identified in the revenue bond documents.

**E.F. Employee Liabilities Reserve** - The District maintains this reserve to cover the employees' accrued sick and vacation time, other post-employment benefits (OPEB), and other employee liabilities. Interest generated by these funds is allocated to and maintained within the General Account.

- **Target Funding Level** - For funds related to the accrued sick and vacation time, the reserve is adjusted at the end of the fiscal year to equal 100% of the accrued liability. The sick liability represents 75% of the accrued sick hours. The vacation liability represents 100% of the accrued vacation hours.

The District has established an OPEB Trust for the purpose of funding retiree benefits, other than pension. It is the goal of the District to fund this liability through a combination of contributions and investments earnings within a period of 20 years.

- **Events or Conditions Prompting the Use of Reserve Funds** – Funds from this reserve can be used for the payment of accrued sick and vacation. Funds related to the OPEB liability, or other employee related liabilities will be held until such time as they are approved for transfer to an established trust, used to pay for such expenses, or designated for another purpose.

F. **Rate Stabilization** - This reserve was established by the District in order to avoid fluctuations in its water rates. This fund is established to provide flexibility to the Board when setting water rates to allow for absorbing fluctuations in water demand, to pay for water supplies (including ~~water banking, water leases, or supply allocation penalties~~), or to pay for other costs that would otherwise be collected as part of the rates. In addition, in accordance with the provisions of the bond documents, monies from the Rate Stabilization reserve can be withdrawn and included as an adjustment to the calculation of net revenues for purposes of calculating compliance with its rate covenant. In general, the District must have net revenue equal to at least 125% of its annual debt service. Interest generated by these funds is allocated and maintained by the General Account.

- **Target Funding Level** - This reserve shall be maintained at a minimum level equal to 125% of the District's annual debt service, with a maximum level equal to 200% of the District's annual debt service.
- **Events or Conditions Prompting the Use of Reserve Funds** – This fund is intended to be used to defray any temporary unforeseen decreases in the sale of water, to pursue the purchase of water ~~rights, pay for stored water, or to~~ lease water for planned District projects, or for other unforeseen expenses. The Board, on a case-by-case basis, will determine the amount and timing for any use of the fund. In the event the District's net revenues are less than that which is required by the bond covenants, such funds can be withdrawn and included as an adjustment to net revenues for the purposes of ensuring compliance with the District's rate covenant.

G. **Badillo Grand Catastrophic Insurance** - This reserve has been established for the purpose of self-insurance retention for the Badillo Grand Transmission Line. Interest generated by these funds is

allocated to and maintained within the General Account.

- Target Funding Level - This reserve shall be maintained at a funding level of \$500,000.
- Events or Conditions Prompting the Use of Reserve Funds – In the case of a catastrophic event, where costs to repair or replace the Badillo Grand Line are either not covered or were denied by the insurance carrier, such costs could be reimbursed from this reserve.

#### RESTRICTED RESERVES

- A. Acceage Supply (ASC) Reserve - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received from developers for the purpose of constructing or upsizing water distribution and transmission mains.
- Target Funding Level - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.
- B. Acceage Supply (ASC)/Tres Hermanos Reserve - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received for the Tres Hermanos Development. Interest generated by these funds is allocated to and maintained within this reserve. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.
- Target Funding Level - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.
- C. Reservoir Capacity Charge (RCC) Reserve - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received from developers for the purpose of constructing future water storage and pumping facilities. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.
- Target Funding Level - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.
- D. Reservoir Capacity Charge (RCC)/Tres Hermanos Reserve - This reserve is restricted by law, Section

35470 of the State Water Code, and represents monies received for the Tres Hermanos Development. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.

- Target Funding Level - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.

E. Water Supply Charge (WSC) Reserve - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received from developers for the purpose of funding projects to meet new system demand. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.

- Target Funding Level - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for water supply projects. Therefore, no minimum or maximum levels will be established.

F. Customer/Developer Deposits Reserve - This reserve represents the liability of the District associated with deposits received from customers and developers collected in accordance with the District's Rules and Regulations. This reserve fund fluctuates based on deposits received, refunded, or expended for system improvements. Interest generated by this fund is allocated to and maintained within the General Account.

- Target Funding Level - This reserve fund fluctuates based on deposits received, refunded, or expended for system improvements. Therefore, no minimum or maximum levels will be established.

G. Badillo Grand Maintenance Reserve - This reserve is restricted by agreement and derived from the \$1 per acre-foot received for maintenance costs related to the Badillo Grand line. The reserve is adjusted monthly based on monies received or paid out during the month. Interest generated by these funds is allocated to and maintained within this reserve.

- Target Funding Level - This reserve fund fluctuates based on monies received or paid out during the month. Therefore, no minimum or maximum levels will be established.

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## Cash Reserve Policy

### I. **Policy Statement**

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. The Walnut Valley Water District (District) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Reserve funds will be accumulated and maintained to allow the District to fund operating expense and capital expenditures in a manner that is consistent with its annual operating budget and capital improvement budget and to help minimize significant customer rate fluctuations due to changes in funding requirements.

The Board of Directors may designate specific reserve accounts and maintain certain balances that it has determined to be in the best interest of the District. The cash reserve policy as outlined in this document is intended to ensure that the District has sufficient funds to meet current and future needs.

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There are three types of reserve funds:

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- C. RESTRICTED RESERVES - Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws or regulations governing use.

### III. **General Provisions**

The District will maintain a separate accounting and invest reserve funds in a manner that insures financial soundness and provides transparency to its ratepayers. Such established reserves will be reviewed at least annually by the Board. If the annual review reflects actual or projected reserve levels that fall either 10% below or 10% above the levels prescribed in this policy, District staff shall provide an explanation of why reserve levels are not at the targeted level, and/or provide an identified course of action to bring reserve levels to the target amount.

#### IV. Reserve Levels and Management

##### GENERAL ACCOUNT

These are the funds that accumulate from day-to-day operations and represent funds that have not otherwise been designated or restricted. Typically, funds that accumulate during the year are then transferred to specific reserves at the end of each fiscal year. Interest generated by these funds is maintained within this account.

##### DESIGNATED RESERVES

- A. **Operating Reserve** - The District maintains an Operating Reserve to help ensure the District can provide essential services in cases where normal cash flows are interrupted.
- **Target Funding Level** - The operating reserve shall maintain a balance equal to an average of two months of operating expenses based on the current fiscal year's operating budget, excluding purchased water costs and debt obligations. Interest generated by these funds shall be maintained within the General Account.
  - **Events or Conditions Prompting the Use of Reserve Funds** – In cases where cash flows have been interrupted or are otherwise insufficient, these funds may be used for operating expenses, capital expenditures, or other purposes as authorized by the Board.
- B. **Capital Improvement Reserve** - The District maintains a Capital Improvement Reserve for the purpose of funding the acquisition and construction of new capital assets. This reserve fund is established for all new capital items or projects with a cost of \$5,000 or more and a useful life of five years or greater. Interest generated by these funds is allocated to and maintained within this reserve.
- **Target Funding Level** - The reserve for capital projects shall be maintained with a minimum balance equal to the estimated cost of all capital improvement projects approved by the Board through the regular budget process. On average the District needs approximately \$500,000 annually to fund new capital projects. The Capital Reserve will not exceed five years of capital funding totaling an estimated \$2,500,000.
  - **Events or Conditions Prompting the Use of Reserve Funds** – Funds from this reserve can be used for any purpose deemed appropriate by the Board. Typically, funds will be used to construct or purchase assets as approved by the Board as part of the District's Capital Improvement Budget (CIP), or by separate Board action.
- C. **Reserve for Replacement** - The District maintains a Reserve for Replacement to be used for funding the replacement or refurbishment of existing capital assets, including the District's buildings. This reserve fund is established for all replacement items with a cost of \$5,000 or more and a useful life of five years or greater. Interest generated by these funds is allocated to and maintained within this reserve.

- Target Funding Level - It is the intent of the District to maintain a balance sufficient to fund the immediate and long-term replacement costs of the District’s assets. Target reserve levels are based on the District’s 20-Year CIP Plan. The minimum funding level shall be equal to 5-years of replacement funding with a maximum reserve goal equal to 10-years of funding as detailed in the 20-Year CIP Plan.
  - Events or Conditions Prompting the Use of Reserve Funds – Funds from this reserve can be used for any purpose deemed appropriate by the Board. Generally, assets to be replaced will be included and approved by the Board as part of the District’s annual CIP budget, or by separate action by the Board.
- D. **Stored Water Reserve** - The District maintains a Stored Water Reserve for purposes of accumulating funds to purchase untreated imported water necessary to operate Water Supply Reliability Projects.
- Target Funding Level – An annual contribution equal to the cost of purchasing a quantity of water equal to at least 50% of the water produced from the project during the year.
  - Events or Conditions Prompting the Use of Reserve Funds – As water become available from MWD, funds from this reserve will be used to purchase untreated imported water.
- E. **Project Reserve** - The District maintains a Project Reserve to ensure sufficient funding is available to fund components of the Regional Water Supply Project or District Headquarters projects that were initially expected to be funded through the issuance of debt but were substituted for other District projects. To ensure compliance with certain bond provisions, or for other identified reasons, the District may determine that it would be advantageous to fund certain “substitute projects” from bond proceeds rather than components of the Regional Water Supply Project or District Headquarters Project. In the event a “substitute project” is funded from bond proceeds, an amount equal to the actual expenses paid from bond proceeds will be moved from the reserve fund from which the “substitute project” was originally approved to the Project Reserve. Interest generated by this fund shall be maintained within the General Fund.
- Target Funding Level – There is no target level established for this reserve. Amounts in this reserve are dependent upon projects that have been substituted for use with Bond proceeds.
  - Events or Conditions Prompting the Use of Reserve Funds – The funds in this reserve have been set aside to fund components of the Regional Water Supply Project or District Headquarters Project as identified in the revenue bond documents.
- F. **Employee Liabilities Reserve** - The District maintains this reserve to cover the employees’ accrued sick and vacation time, other post-employment benefits (OPEB), and other employee liabilities. Interest generated by these funds is allocated to and maintained within the General Account.

- Target Funding Level - For funds related to the accrued sick and vacation time, the reserve is adjusted at the end of the fiscal year to equal 100% of the accrued liability. The sick liability represents 75% of the accrued sick hours. The vacation liability represents 100% of the accrued vacation hours.

The District has established an OPEB Trust for the purpose of funding retiree benefits, other than pension. It is the goal of the District to fund this liability through a combination of contributions and investments earnings within a period of 20 years.

- Events or Conditions Prompting the Use of Reserve Funds – Funds from this reserve can be used for the payment of accrued sick and vacation. Funds related to the OPEB liability, or other employee related liabilities will be held until such time as they are approved for transfer to an established trust, used to pay for such expenses, or designated for another purpose.

F. **Rate Stabilization** - This reserve was established by the District in order to avoid fluctuations in its water rates. This fund is established to provide flexibility to the Board when setting water rates to allow for absorbing fluctuations in water demand, to pay for water supplies (including water leases, supply allocation penalties, or to pay for other costs that would otherwise be collected as part of the rates. In addition, in accordance with the provisions of the bond documents, monies from the Rate Stabilization reserve can be withdrawn and included as an adjustment to the calculation of net revenues for purposes of calculating compliance with its rate covenant. In general, the District must have net revenue equal to at least 125% of its annual debt service. Interest generated by these funds is allocated and maintained by the General Account.

- Target Funding Level - This reserve shall be maintained at a minimum level equal to 125% of the District’s annual debt service, with a maximum level equal to 200% of the District’s annual debt service.
- Events or Conditions Prompting the Use of Reserve Funds –This fund is intended to be used to defray any temporary unforeseen decreases in the sale of water, to pursue the purchase of water rights, lease water for planned District projects, or for other unforeseen expenses. The Board, on a case-by-case basis, will determine the amount and timing for any use of the fund. In the event the District’s net revenues are less than that which is required by the bond covenants, such funds can be withdrawn and included as an adjustment to net revenues for the purposes of ensuring compliance with the District’s rate covenant.

G. **Badillo Grand Catastrophic Insurance** - This reserve has been established for the purpose of self-insurance retention for the Badillo Grand Transmission Line. Interest generated by these funds is allocated to and maintained within the General Account.

- Target Funding Level - This reserve shall be maintained at a funding level of \$500,000.
- Events or Conditions Prompting the Use of Reserve Funds – In the case of a catastrophic event, where costs to repair or replace the Badillo Grand Line are either not covered or were denied by the insurance carrier, such costs could be reimbursed from this reserve.

## RESTRICTED RESERVES

- A. **Acreage Supply (ASC) Reserve** - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received from developers for the purpose of constructing or upsizing water distribution and transmission mains.
- **Target Funding Level** - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.
- B. **Acreage Supply (ASC)/Tres Hermanos Reserve** - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received for the Tres Hermanos Development. Interest generated by these funds is allocated to and maintained within this reserve. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.
- **Target Funding Level** - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.
- C. **Reservoir Capacity Charge (RCC) Reserve** - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received from developers for the purpose of constructing future water storage and pumping facilities. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.
- **Target Funding Level** - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.
- D. **Reservoir Capacity Charge (RCC)/Tres Hermanos Reserve** - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received for the Tres Hermanos Development. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.
- **Target Funding Level** - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will

fluctuate depending on the amount collected and the amount expended for capital improvement projects for facilities and assets in the District's water system. Therefore, no minimum or maximum levels will be established.

- E. **Water Supply Charge (WSC) Reserve** - This reserve is restricted by law, Section 35470 of the State Water Code, and represents monies received from developers for the purpose of funding projects to meet new system demand. This reserve will be evaluated annually to ensure compliance with all applicable laws and regulations. Interest generated by these funds is allocated to and maintained within this reserve.
  - **Target Funding Level** - Developer Fees are collected as a condition of development in accordance with the District's Rules and Regulations. The balance in this account will fluctuate depending on the amount collected and the amount expended for water supply projects. Therefore, no minimum or maximum levels will be established.
  
- F. **Customer/Developer Deposits Reserve** - This reserve represents the liability of the District associated with deposits received from customers and developers collected in accordance with the District's Rules and Regulations. This reserve fund fluctuates based on deposits received, refunded, or expended for system improvements. Interest generated by this fund is allocated to and maintained within the General Account.
  - **Target Funding Level**- This reserve fund fluctuates based on deposits received, refunded, or expended for system improvements. Therefore, no minimum or maximum levels will be established.
  
- G. **Badillo Grand Maintenance Reserve** - This reserve is restricted by agreement and derived from the \$1 per acre-foot received for maintenance costs related to the Badillo Grand line. The reserve is adjusted monthly based on monies received or paid out during the month. Interest generated by these funds is allocated to and maintained within this reserve.
  - **Target Funding Level** - This reserve fund fluctuates based on monies received or paid out during the month. Therefore, no minimum or maximum levels will be established.

Walnut Valley Water District  
Cash Reserves  
As of May 31, 2019

	Balance	Transfer	Balance After Transfer
<u>General Account &amp; Designated Reserves</u>			
General Account	\$ 4,602,670		\$ 4,602,670
OPEB-EE	\$ 334,233		\$ 334,233
OPEB-ER	\$ -		\$ -
Sick Pay	\$ 618,132		\$ 618,132
Vacation Pay	\$ 499,294		\$ 499,294
Other Employee Liabilities	\$ 900,000		\$ 900,000
Rate Stabilization	\$ 1,541,603		\$ 1,541,603
Badillo Cat Ins	\$ 500,000		\$ 500,000
Capital	\$ 1,503,101		\$ 1,503,101
Replacement	\$ 9,650,673	\$ 2,737,000	\$ 12,387,673
Project Reserve	\$ 967,232		\$ 967,232
Operating Reserve	<u>\$ 5,167,000</u>	<u>\$ (2,737,000)</u>	<u>\$ 2,430,000</u>
Total General & Designated Reserves	\$ 26,283,939	\$ -	\$ 26,283,939
<u>Restricted Reserves</u>			
Customer & Developer Deposits	\$ 11,740,166		\$ 11,740,166
Badillo Grand Maintenance	\$ 296,809		\$ 296,809
Acreage Supply Charge	\$ 1,845,964		\$ 1,845,964
Reservoir Capacity Charge	\$ 3,258,688		\$ 3,258,688
Water Supply Charge	<u>\$ 2,186,018</u>	<u>\$ -</u>	<u>\$ 2,186,018</u>
Total Restricted Reserves	\$ 19,327,645	\$ -	\$ 19,327,645

# WVWD – Staff Report



**TO:** Board of Directors  
**FROM:** General Manager  
**SUBMITTED By:** Assistant General Manager  
**DATE:** June 20, 2019  
**SUBJECT:** Adoption of 20-Year Asset Replacement and Refurbishment Plan

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Action/Discussion     Fiscal Impact     Resolution     Information Only

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## Recommendation

That the Board of Directors approve the District's 20-Year Asset Replacement and Refurbishment Plan.

## Background

Historically the District has been committed to ensuring proper reserves are set-aside to fund the replacement and refurbishment of the District's infrastructure. Consistent with past practice and the District's strategic initiative of long-term financial planning, staff has spent the last 6-months updating its 20-year Asset Replacement & Refurbishment Plan (AR&R). The AR&R Plan is intended to be the basis for the replacement and refurbishment portion of the annual CIP budget, and reflects the District's ongoing commitment to long-term financial stability and flexibility through prudent financial planning. By planning 20 years into the future, the District is able to maintain and upgrade facilities in a preventative manner avoiding financial surprises while ensuring overall system reliability. All utilities are faced with an aging infrastructure, limited financial resources, and competing priorities. The AR&R Plan is intended to be a useful tool in establishing the District's priorities, and will be relied upon to ensure the District has sufficient funding for the identified projects.

It is the intent of staff to update the AR&R Plan annually, as part of its overall financial planning process that includes the annual operating budget and CIP budget, and will be incorporated into the financial plan of the rate study.

The plan is organized into nine major program categories which are listed below:

1. Interior Reservoir Coatings
2. Exterior Reservoir Coatings
3. Pump Station Rehabilitations
4. Pipeline Replacements
5. Meter Replacements
6. Vehicle Replacements
7. SCADA System
8. Information Technology
9. Valve, PRV, and Other

Attachment:  
*20-Year Asset Replacement and Refurbishment Plan*

## Walnut Valley Water District 20-Year Asset Replacement & Refurbishment Plan

Asset Class	FYE 2019	FYE 2020	FYE 2021	FYE 2022	FYE 2023	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Reservoir Coatings - Interior	886,400	-	-	-	-	-	-	-	-	-
Reservoir Coating - Exterior	591,000	132,800	-	-	-	71,900	528,400	-	287,600	518,000
Pump Station Rehabilitations	715,600	184,500	22,200	82,200	223,400	132,300	236,000	281,400	407,300	30,900
Pipeline Replacements	-	-	16,300	46,200	79,600	116,800	158,100	204,000	254,800	310,800
Meter Replacement	2,275,800	1,224,000	1,248,500	1,379,600	1,407,200	518,900	591,200	1,809,200	1,728,200	1,314,600
Vehicle Replacement	196,500	192,300	135,300	147,000	292,200	160,100	287,200	149,300	169,900	155,400
SCADA	-	-	156,100	-	162,400	-	-	-	-	-
Information Technology	300,000	321,000	166,400	-	5,400	231,800	239,300	-	-	191,200
Valve, PRV and Other	836,700	727,800	332,900	551,800	368,000	436,100	219,600	453,700	228,500	531,800
One Time Expenses	1,801,000	531,600	140,000	-	-	-	-	-	-	-
<b>Total</b>	<b>7,603,000</b>	<b>3,314,000</b>	<b>2,217,700</b>	<b>2,206,800</b>	<b>2,538,200</b>	<b>1,667,900</b>	<b>2,259,800</b>	<b>2,897,600</b>	<b>3,076,300</b>	<b>3,052,700</b>

Asset Class	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033	FYE 2034	FYE 2035	FYE 2036	FYE 2037	FYE 2038	Total
Reservoir Coatings - Interior	-	214,100	-	-	-	115,900	605,200	-	448,400	789,200	3,059,200
Reservoir Coating - Exterior	-	657,800	123,800	140,600	865,600	297,900	178,700	-	-	-	4,394,100
Pump Station Rehabilitations	424,300	224,900	27,000	100,200	273,000	161,300	287,900	342,300	496,400	37,600	4,690,700
Pipeline Replacements	372,400	440,100	514,100	594,900	682,900	778,400	881,700	993,100	1,113,100	1,241,700	8,799,000
Meter Replacement	1,340,900	1,492,000	1,648,700	1,681,700	1,715,300	336,500	343,200	1,820,300	1,713,900	1,602,500	27,192,200
Vehicle Replacement	249,900	391,700	222,000	168,200	191,300	175,000	190,200	182,000	197,800	477,900	4,331,200
SCADA	-	-	-	-	-	-	-	-	-	-	318,500
Information Technology	341,400	515,600	101,500	-	6,600	175,000	401,500	112,000	114,300	-	3,223,000
Valve, PRV and Other	237,700	242,500	247,300	252,300	283,700	262,400	267,700	273,000	278,500	284,100	7,316,100
One Time Expenses	-	-	-	-	-	-	-	-	-	-	2,472,600
<b>Total</b>	<b>2,966,600</b>	<b>4,178,700</b>	<b>2,884,400</b>	<b>2,937,900</b>	<b>4,018,400</b>	<b>2,302,400</b>	<b>3,156,100</b>	<b>3,722,700</b>	<b>4,362,400</b>	<b>4,433,000</b>	<b>65,796,600</b>