



**REGULAR FINANCE COMMITTEE MEETING
THURSDAY, APRIL 12, 2018, AT 9:00 AM
61750 CHOLLITA ROAD, JOSHUA TREE, CA 92252**

AGENDA

1. CALL TO ORDER
2. PLEDGE OF ALLEGIANCE
3. DETERMINATION OF QUORUM
4. APPROVAL OF AGENDA
5. PUBLIC COMMENT
6. APPROVE MINUTES OF THE PRIOR COMMITTEE MEETING
 - Draft Minutes – March 14, 2018
7. OVERVIEW OF INSURANCE PROCESS- Receive information and refer to the Board for approval.
8. CONSIDER REVISION TO BUDGET CYCLE – Refer one-year budget cycle to the Board for approval.
9. RESERVE FUND POLICY – Receive information and refer to the Board for approval.
10. LOW-INCOME RATE ASSISTANCE PROGRAM – Informational update based on three (3) other District's programs.
11. STAFF REPORT
12. ADJOURNMENT

INFORMATION

During "Public Comment," please use the podium microphone. State your name and have your information prepared and be ready to provide your comments. The District is interested and appreciates your comments. A 3-minute time limit will be imposed.

Any person with a disability who requires accommodation to participate in this meeting should telephone Joshua Basin Water District at (760) 366-8438, at least 48 hours before the meeting to request a disability-related modification or accommodation.

Materials related to an item on this Agenda submitted to the Committee after distribution of the agenda packet are available for public inspection in the District's office located at 61750 Chollita Road, Joshua Tree, California 92252 during regular business hours.

JOSHUA BASIN WATER DISTRICT
Minutes of the
REGULAR MEETING OF THE FINANCE COMMITTEE
Monday, March 14, 2018
61750 Chollita Road, Joshua Tree, CA 92252

1. CALL TO ORDER 9:00 a.m.

2. PLEDGE OF ALLEGIANCE

Committee Members Present:

Bob Johnson, Vice President
Tom Floen, Director

Staff Present:

Curt Sauer, General Manager
Mark Ban, Assistant General Manager of Operations
Susan Greer, Assistant General Manager/Controller
Anne Roman, Accountant

Consultant Present:

Guests: 4

3. DETERMINATION OF QUORUM
A quorum is present.

4. APPROVAL OF AGENDA

MSC/Floen/Johnson 2/0 to approve the agenda for March 14, 2018, Regular Meeting of the Finance Committee.

5. PUBLIC COMMENT - None

6. APPROVE MINUTES OF THE PRIOR COMMITTEE MEETING –

- February 14, 2018

MSC/Floen/Johnson 2/0 to approve the minutes of February 14, 2018, Regular Meeting of the Finance Committee.

7. REVIEW CHECK REGISTER FOR FEBRUARY 2018- Receive information and refer to the Board for approval.

MSC/Floen/Johnson 2/0 to refer the February 2018 check register to the Board for approval.

8. RENEWAL OF AUDIT CONTRACT FOR THE NEXT FIVE (5) YEARS – Receive information and refer to the Board for approval.

MSC/Floen/Johnson to refer the renewal of the Audit Contract for the next five (5) years to the Board for approval.

9. DISCUSSION: ROLE AND FUNCTION OF THE FINANCE COMMITTEE – The Finance Committee held a brief discussion on their roles and functions.

10. STAFF REPORT - None

11. ADJOURNMENT –

MSC Floen/Luckman 2/0 to adjourn the Regular Meeting of the Finance Committee at 10:26 a.m.

Respectfully,

Susan Greer, Assistant General Manager and Controller

JOSHUA BASIN WATER DISTRICT
MEETING AGENDA REPORT

Meeting of the Finance Committee

April 12, 2018

Report to: Committee Members

Prepared by: Susan Greer

TOPIC:
CONSIDER REVISION TO BUDGET CYCLE

RECOMMENDATION:
Refer one-year budget cycle to Board for consideration.

ANALYSIS:
As best I can tell, the District implemented a 2-year budget cycle in 04/05. That was based upon staff recommendation at the time, for ease of administration. A lot has changed in the ensuing years, not the least of which is the District's financial software, which we are trying to utilize to the fullest extent possible. That software is not designed to accommodate a 2-year budget cycle and it takes a lot of extra effort to make it work. Remember that we adopt a 2-year budget and then, around the end of the first year, make adjustments to the second year. This review process is virtually as much effort as a brand new budget, and because the software doesn't support the 2-year budget cycle, it is actually more effort than starting from scratch.

We believe that focusing on one year at a time, with less detail, especially when new programs and initiatives are being considered, will simplify this process for Staff and the Board. In addition, there will be time savings for Finance Staff who manage the budget.

STRATEGIC PLAN ITEM:
N/A

FISCAL IMPACT:
N/A

JOSHUA BASIN WATER DISTRICT
MEETING AGENDA REPORT

Meeting of the Finance Committee

January 12, 2018

Report to: Committee

Prepared by: Susan Greer

TOPIC:
CONTINUED REVIEW OF PROPOSED RESERVE FUND POLICY

RECOMMENDATION:
Review and recommend to the Board for approval at the appropriate time.

ANALYSIS:
A copy of the draft Reserve Fund Policy, which includes the comments from our rate study consultant Alex, is attached for your review and consideration. Alex's comments are in red. The document was presented to the Board at their last meeting, requesting that the individual Directors provide any suggested changes to the Finance Committee members. The policy has also been sent to the CAC for input, and we're awaiting their comments. We have already received input from Staff, and the reserve policy trainer, David Becker, and all of those comments were included in the first draft policy previously presented. We will discuss any proposed amendments and continue the process until the Committee is prepared to send the Policy to the Board for approval.

I have received information about the SCADA replacement requirements and will update that at the meeting, which impacts the Equipment & Technology Replacement Reserve – that comment is in green in the document.

FISCAL IMPACT:
N/A

ARTICLE 9

RESERVE FUND POLICY

9.01 PURPOSE. It is the Joshua Basin Water District Board of Director's intent through this Policy to describe how and why specific reserves are established and maintained and to provide District ratepayers and taxpayers with assurance that reserve balances will be maintained at prudent and fiscally responsible levels.

Maintaining adequate cash reserves is an essential part of sound financial management, to meet both short-and long-term financial obligations. Reserves play a critical role in providing reliable service for our ratepayers, financing of long-term capital projects and responding to emergencies. Reserves can provide the savings necessary to balance budgets during periods of diminished revenues, allow for emergency preparedness, assist in maintaining stable water service rates, and preserve the financial stability of the District against present and future uncertainties in an ever-changing environment.

Suggested reserve funding balances are necessary to maintain Joshua Basin Water District's fiscal strength and flexibility and to adequately provide for:

- Compliance with applicable statutory requirements.
- Financing of future capital projects, and repair and replacement of existing assets.
- Cash flow requirements.
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy.
- Contingencies or unforeseen operating or capital needs.

9.01.01 GUIDING PRINCIPLES

1. The District will prudently manage the resources entrusted to it by our ratepayers.
2. The District will maintain reserve funds in designated accounts in a manner that ensures its financial soundness and provides transparency to its ratepayers.
3. The District will maintain reserve funds that :
 - Are designated for specific purposes;
 - Are consistent with other financial policies, budgetary practices, District programs and legal requirements;
 - Allow the District to provide a high level of emergency preparedness for our ratepayers;
 - Provide funding for well-maintained infrastructure for current and future ratepayers; and
 - Allow the District to respond to an ever-changing environment, such as drought or new water quality mandates.

9.01.01 AUTHORITY. Joshua Basin Water District has authority under Article XIII B of the California Constitution to establish such reserves as are deemed reasonable and proper.

9.01.02 DEFINITIONS

Restricted Reserves - Limitations on the use of restricted reserves are imposed by an outside source such as creditors, grantors, contributors, or laws or regulations of other Governmental entities.

Unrestricted Reserves - Have no externally imposed use restrictions. The use of unrestricted reserves is at the discretion of the Joshua Basin Water District Board of Directors. There are two categories of unrestricted reserves, Designated and Undesignated. Currently, all Unrestricted Reserves at Joshua Basin Water District are Designated Reserves.

Designated Reserves - Set aside for a specific purpose, which is determined at the sole discretion of the Board of Directors. The Board of Directors also has the authority to redirect the use of these reserve funds as the needs of the Joshua Basin Water District change.

9.01.03 RESTRICTED RESERVE FUNDS. Joshua Basin Water District has the following types of restricted reserve funds:

Water Capacity Charges – Regulated per Government Code 66013(b)(3). Water capacity charges are used to provide funding for water system infrastructure that will be required in the future or to payback the District for pre-built water system infrastructure already in existence at the time new water service connection is requested, as a pro-rata share of the costs to construct such facilities. Water capacity charges can fund either future system expansion required because of growth or may be used to reimburse the District for previously funded capital facilities that provide benefit to future users. Investment earnings shall be credited to the water capacity charge reserve fund.

Wastewater/Sewer Capacity Charge – Regulated per Government Code 66013(b)(3). Wastewater/sewer capacity charges are used to provide funding for wastewater/sewer system infrastructure that will be required to be constructed in the future, or to payback the District for pre-built water system infrastructure already in existence at the time new wastewater/sewer connection is requested, as a pro-rata share of the costs to construct such facilities. Wastewater/sewer capacity charges can fund either future system expansion required because of growth or may be used to reimburse the District or previously funded capital facilities that provide benefit to future users. Investment earnings shall be credited to the wastewater/sewer capacity charge fund.

Consumer and Project Deposits – Good faith guarantee deposits provided by ratepayers for water service accounts or construction projects. Investment earnings shall be credited to the General Fund.

Copper Mountain Mesa Assessment District (CMMAD) Funds – The District collects debt service and lien payoffs for the CMMAD, which funds are due to the bondholders. In addition, a reserve fund is established for CMMAD as required by the bonds and those reserve funds will be applied towards the final debt service payment on the bonds. Investment earnings shall be credited to the various CMMAD reserve funds.

9.01.04 UNRESTRICTED RESERVE FUNDS. Joshua Basin Water District has the following types of unrestricted reserve funds:

Operating Reserve – The primary purpose of the Operating Reserve is to ensure that the District will, at all times, have sufficient funding available to meet operating and debt service costs. These funds are also available to support operating costs to minimize drastic fluctuations in rates, such as in the event of a drought when water use decreases, thus impacting operating revenues.

The target of the Operating Reserve fund is to maintain a balance equal to three (3) months average operating and debt service expenses excluding depreciation.

Cash Flow Reserve – This reserve is considered a cash flow requirement. It bridges the gap between the time expenses are paid, and revenues are collected from ratepayers, ensuring that the District preserves credit worthiness and provides for liquidity throughout the fiscal year.

The target of the Cash Flow Reserve fund is to maintain a balance equal to three (3) months average operating and debt service expenses excluding depreciation.

The combined target balance for both the Cash Flow Reserve and the Operating Reserve is equal to six (6) months average operating and debt service expenses excluding depreciation. As monies are neither received nor spent in twelve even monthly increments, the Cash Flow Reserve balance may exceed this combined balance as monies are received and held temporarily for disbursement at a later date.

Emergency Capital Replacement Reserve - This reserve is provided for emergencies or unplanned infrastructure failures.

The target of the Emergency Reserve fund is to maintain a \$2 million balance.

Capital Improvement Plan Reserve (CIP) - This reserve provides funding for infrastructure projects in the approved Capital Improvement Plan (CIP.) The CIP identifies annual infrastructure projects for pipelines, wells, boosters, and reservoirs.

Funding for CIP projects is outlined in the Capital Budget. In addition, **50% of annual operating net revenue**, as determined by the annual audit, will be deposited into the CIP Reserve fund after audit acceptance by the Board of Directors. Depending on the District's cash flow requirements, CIP Reserves funded during any fiscal year may or may not be available for use at the start of the fiscal/budget year.

This reserve is to be used for priority capital projects that will be reviewed and approved by the Board of Directors, so *no maximum reserve level is recommended*. Because of the discretionary nature of this reserve, the ability to decide which projects will be funded and when *no minimum balance is required*.

Note that CIP projects may be concurrently funded and constructed within the same fiscal year, or, because infrastructure project costs are significant, projects may take more than one fiscal year to either plan/construct or be fully funded.

Individual Replacement Reserves - In addition to the water infrastructure projects funded via the CIP Reserve (above,) the District has other capital replacement requirements. Individual replacement reserves are established for the following purposes, which are not otherwise funded via the Capital Improvement Plan.

Building Replacement Reserve – Is designated for future office/shop building expansion or replacement. Target funding level of \$315,000 is based on 1,000 square foot expansion of both shop and office buildings within the next ten years. Replacement cost is based on ACWA/JPIA annually escalated insurance replacement cost.

Equipment & Technology Replacement Reserve – Provides for regular replacement of vehicles, heavy equipment and computers, software and peripherals, office equipment and SCADA (Supervisory Control and Data Acquisition computerized monitoring system) with a cost of at least \$1,000. Target funding level is \$250,000.

Meter Replacement Reserve - Targets replacement of water meters approximately every 20 years. Meter replacement is overdue at the time this policy was written, and the District intends to replace meters over the next five fiscal years (2018/19 – 2022/23) at an estimated cost of \$2,500,000, requiring annual funding of \$500,000 through 2022/23. In 2023/24, or after meter replacement is complete, the annual funding will decrease so that the meter replacement fund achieves the appropriate balance after 20 years, (based on an updated estimated future replacement cost apportioned over 20 years), to provide funding for the subsequent meter replacement cycle.

Studies & Reports Replacement Reserve – Funding for periodic updates to studies and reports such as the Urban Water Management Plan, Rate Studies, Compensation Studies, Water Master Plan. JBWD spends approximately \$50,000 per year on average for such studies and reports, although individual studies and reports can exceed that cost. Target funding level is \$100,000.

In addition, a Wells, Boosters, Reservoir replacement reserve was previously established and currently has a balance of \$382,788 available for funding of appropriate projects. This Reserve will no longer be funded beginning in fiscal 18/19, and the current balance will be transferred to the CIP Reserve account.

Totals and Inflation - Annual funding from the 17/18 operating budget for all of the existing Capital Replacement Reserves is approximately \$247,000. Including additions for the newly identified reserves for meter replacement and studies & reports, and elimination of future funding for wells, boosters, and reservoir replacement reserves, future reserve funding should be approximately \$690,000 per year as of the date of this policy. However, JBWD does not currently generate adequate revenues to fund this level of reserves but plans to increase annual reserve funding in future years. Reserve funding should be increased each year to keep up with inflation. Funding levels for the Meter Replacement reserve will decrease after five years or when all water meters are replaced.

Investment earnings from all Unrestricted Reserves - Will be credited to the General Fund.

9.01.05 PROCEDURES

Policy Review - The Reserve Policy and its funding levels shall be reviewed every two years prior to the adoption of the two-year budget. The Reserve Policy and funding levels will also be reviewed during the mid-term review of the budget that occurs during the second year of the two-year budget cycle.

Utilization of Reserves for Cash Flow Purposes - The Operating Reserves may be used at any time to meet cash flow requirements of District operations, as authorized by the Assistant General Manager/Controller. Authority to use the funds will be consistent with all of the District's financial policies.

Use of the Emergency Reserves can be authorized by the General Manager per Article 4.04.07 of the Administrative Code.

Use of Capital Replacement Reserves must be authorized by the JBWD Board of Directors.

Reallocation of Funds - The Board shall approve any reallocation of funds, transfers among reserve funds, or action that is inconsistent with this policy.

9.01.06 SUMMARY - The Reserve Fund Policy states that designated reserves will be maintained to allow for funding of the District's operating, capital and debt service obligations, as well as funding for unforeseen events. Reserves will be established, replenished, and used only in a manner, which allows the District to fund costs consistent with the Capital Improvement Plan, Financial Plan, and Rate Study, and other Board adopted actions. The District's Reserve Fund Policy shall be periodically reviewed and adjusted to meet the needs of the District.

JOSHUA BASIN WATER DISTRICT
STAFF REPORT

Meeting of the Finance Committee

April 12, 2018

Report to: Committee

Prepared by: Curt Sauer

TOPIC: Update on Low Income Assistance Program development

RECOMMENDATION: Receive for information and forward to Board for consideration

ANALYSIS:

Low-Income Rate Assistance programs exist in several districts throughout the state. These programs are funded with non-water revenues, such as cell tower lease income. It is possible to fund such a program at JBWD through property tax revenues, or fees associated with delinquent accounts, such as late fees and lock off fees.

Property tax revenues are about \$425,000 each year. Fees collected associated with delinquent accounts average \$75,000 per year. Any monies the Board authorizes for this program would result in less money available for annual operating expenses. The examples presented below potentially cost two other districts about \$2,000 to \$10,000 per year.

Another aspect of funding this program could be to reassess the Customer Account Assistance Program, which cost the district \$6200 in 20162017.

How the programs work:

Coachella Valley implemented their program in 2017. They offer assistance to customers that are at or below 200 percent of the Federal poverty level (see attached chart).

Initially, customers were eligible for a once per year \$50 rebate on their water bill. In 2017, 71 customers took advantage of the program.

Administration of the program is handled by United Way, for a \$50 per month fee. Customers apply for assistance thru United Way, either in person or online. Once they have proven their income level, and have been qualified by United Way, the agency notifies CVWD customer service, and their account is credited.

Employees and the public can donate to the program through United Way.

Since there were only 71 participants in 2017 (\$3,550), the Board authorized an annual assistance level of \$100. During the first three months of 2018, 54 customers have signed up.

At Mission Springs, the program has been in place for 4 or 5 years. They work with United Way similar to CVWD. Their annual costs about \$1,000 to \$2,000, or between 20 and 40 applicants.

Both water agencies have publicized the program on the internet, in mailings, and on the water bills. Both agencies managers expressed their surprise at the lack of participation. Staff time is estimated at 50 hours per year.

JBWD Board could consider funding the program annually, at a set ceiling. For example, \$50 credits, with a \$5,000 ceiling would serve 100 applicants. Plus \$600 annually for United Way. JBWD could start their program at the poverty level; there is no requirement to use the 200 percent above the poverty level.

I have spoken with the United Way coordinator. She is willing to discuss a partnership with the District once we have specifics about the program. It is possible they would charge more than \$50 per month.

I recommend the Committee forward this to the Board for discussion and direction to staff.