

RESOLUTION NO. 886-09

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE MOJAVE WATER AGENCY
ESTABLISHING RULES AND REGULATIONS RELATING TO AGENCY RESERVES**

WHEREAS, the Agency is required to set aside funds in order to assure the payment of certain debts; and

WHEREAS, the Agency is obligated to set aside funds by both Board directive and contracts based on certain revenue types or capital expense needs; and

WHEREAS, the voters of California on November 6, 1979 added Article XIII B of the State Constitution placing various limitations on the appropriations of the State and local governments; and amended it by the Measure approved on June 5, 1990; and

WHEREAS, the Agency is required to purchase water and replenish ground water and only has one primary source of water; and

WHEREAS, the Agency must be prepared for sudden emergencies and unexpected cost increases; and

WHEREAS, the Board of Directors of the Mojave Water Agency desires to adopt a set of rules to establish a reasonable and sound reserve policy;

NOW THEREFORE, BE IT RESOLVED that the Board of Directors of the Mojave Water Agency hereby adopts the following Reserve Fund Policy:

RESERVE FUND POLICY

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Section 1. Title of Resolution. This resolution shall be known as the Reserve Resolution of the Mojave Water Agency (“Agency”).

Section 2. Purpose of Rules and Regulations. The purpose of these rules and regulations is to provide specific rules with which to establish, maintain and transfer reserve funds.

Section 3. Definitions. Definitions found in Government Code Section 3501 shall be applicable to these rules and regulations. For purposes of these rules and regulations, the following definitions, in addition to those specified above, shall be applicable:

- a) AGENCY: shall mean the Mojave Water Agency.
- b) BOARD: shall mean the Board of Directors of the Mojave Water Agency.
- c) GENERAL MANAGER: shall mean the General Manager of the Mojave Water Agency.
- d) DEPARTMENT OF WATER RESOURCES (DWR): DWR oversees the State Water Project.
- e) STATE WATER PROJECT (SWP): The facility that delivers water from Northern California through the Delta as far south as Lake Perris.
- f) STATE WATER CONTRACTORS (SWC): The 29 agencies that purchase the water delivered by the SWP via long-term water supply contract.
- g) O.M.P.&R. COSTS: Operations, Maintenance, Power and Replacement costs.
- h) STORAGE AGREEMENT: The Storage Agreement between Mojave Water Agency and the Mojave Basin Area Watermaster established on March 22, 1995 pursuant to the Judgment in Case No. 208568 of the Superior Court of the State of California, County of Riverside, entered September 22, 1993.

Section 4. Reserve Categories. The reserves are separated into two major categories, Restricted and Unrestricted. Within those categories are sub-categories, which identify the purpose for the reserve, the source of funding, the availability or liquidity of funds required in the reserve, as well as dollar thresholds.

RESTRICTED:

a) **BOND RESERVE:**

- a. **Purpose:** Reserves set aside for the specific purpose of making debt service payments. These payments must be made according to the "Bond Repayment Schedule: found in the "Official Statement" for the Bond issue.
- b. **Source:** The funds will be received from a source identified in the Official Statement (generally a tax levy, but can be specific revenues, contributed funds, etc.).
- c. **Availability:** The assets representing these reserves must be liquid, available according to a debt service payment schedule, and are not transferable.
- d. **Limit:** The amount collected for the debt service and bond reserve amounts and as limited by the "Official Statement."

b) **WATERMASTER RESERVE:**

- a. **Purpose:** Reserves set aside based on the requirements established by the Mojave Basin Area Judgment entered on January 10, 1996.
- b. **Source:** The funds are revenues billed by the Watermaster for Replacement Water, Makeup Water, Administrative and Biological Resource assessments as defined by the Judgment.
- c. **Availability:** The assets representing this reserve must be available based on a cash requirements schedule established annually by the Watermaster. Therefore, these assets must be liquid, readily available and cannot be transferred.
- d. **Limit:** Not to exceed the funds collected from the established source.

c) **STATE WATER CONTRACT RESERVE:**

- a. **Purpose:** Reserves set aside for all costs attendant to delivery of water by way of the SWP.
- b. **Source:** The funds are allocated from revenues received through the Agency by way of tax assessments authorized for the express purpose of managing the State Water Contract. The assets representing this reserve become available after all other obligations have been met. The specific tax assessments are commonly referred to as MWA 1, currently set at 11.25¢ per \$100 of assessed valuation, and MWA 2(a), currently set at .03¢ per \$100 of assessed valuation.
- c. **Availability:** These assets are in the form of cash. .
- d. **Limit:** An amount not to exceed the total amount calculated by adding the largest variance in the last five years in the following four (4) DWR billing categories as defined in Bulletin 132, Appendix B, Figure B-3 "Composition of Delta Water Charge and Transportation Charge" or \$3 million, whichever is largest.
 - Capital Costs
 - Minimum O.M.P.&R. Costs
 - Off Aqueduct Costs

- Variable O.M.P.&R. Component Costs

d) **WATER STORAGE PURCHAS RESERVE:**

- a. **Purpose:** Reserves set aside for the specific purpose of purchasing water for underground storage.
- b. **Source:** The funds are from unappropriated MWA 1, MWA 2(a) and water sales (based on average cost of the inventory). **Availability:** The assets representing this reserve are available only after the State Water Contract reserve targets **have been** met. Excess cash from the State Water Contract reserve are transferred to this reserve to allow for the purchase of storage water. Lower and upper limits on this reserve are calculated as follows:
 - i. **Lower Limit:** A target amount equal to 100% allocation of Table A amount less the amount included in the following years' budget times the most current DWR variable rate. The calculation is below:

Potential Available Annual Purchase @ 100%	82,800
Less amounts set aside in budget:	
Purchase for resale	(21,200)
Purchase for storage (based on 60% Reliability)	(28,480)
Total set aside in budget	49,680
Amount needed for Full Table A purchase (Full Table A less amount set aside in budget)	33,120
Current Cost/AF (2009 DWR Billing Rate)	\$ 207
Cash Reserve Needed	\$ 6,855,840

The purpose of the lower limit is to have funds set aside to allow for the full purchase of water available from the DWR, up to 100% of the Agency's allocation of Table A amount. In years in which the reserve target falls below the lower limit, or when funds are insufficient to purchase the entire amount of water available from the DWR, the Agency will offer a Pre-Purchase or Claim sale to participating customers. A Pre-Purchase or Claim sale is one in which participating customers may elect to purchase the water through MWA and store that water for later withdrawal or use. The goal here is to maximize the purchase of all water that becomes available and to not pass up on opportunities to store water for future use.

- ii. **Upper Limit:** Not to exceed an amount equal to the banking target maximum identified in the Water Banking Policy times the most

current DWR variable rate, less the amount in the underground.
The calculation as of 2009 is below:

Maximum Banking Target in Acre Feet	357,000
Current Acre Feet In Inventory	(85,000)
Water Purchase Limit	272,000
Current Cost/AF	\$ 235
Cash Reserve Needed	\$ 63,920,000

UNRESTRICTED:

e) CAPITAL RESERVE:

- a. **Purpose:** Reserves set aside for the specific purpose of funding a capital project by way of Board directive or Bond covenants.
- b. **Source:** All revenue sources except for MWA 1 and MWA 2(a).
- c. **Availability:** The assets representing this reserve must be available based on a five year cash requirements schedule established for the construction projects identified in a five year capital project schedule. Therefore, these assets must be liquid, have scheduled availability and cannot be transferred.
- d. **Limit:** The amount needed to fund the Capital Projects or 2% of total capital assets (net of SWP Capital Assets), currently set at \$3,000,000, whichever is greater.

f) GENERAL REVENUE RATE STABILIZATION RESERVE

- a. **Purpose:** Reserves set aside to:
 - Meet unforeseen expenses
 - Ensure Agency assets to reduce insurance costs
 - Reduce or eliminate borrowing
 - Meet sudden capital needs
- b. **Source:** The funds are appropriated by the Board from general unrestricted funds.
- c. **Availability:** The assets representing this reserve must be available at all times. Therefore, these assets must be liquid, readily available and can be transferred or used with Board approval.
- d. **Limit:** Minimum of \$2 million, maximum \$4 million.

g) GENERAL OPERATING RESERVE:

- a. **Purpose:** To bridge the timing of expenses with the anticipated receipt of corresponding tax receipts used for such expenditures.
- b. **Source:** The funds are a working balance generated via the enterprise functions, including water sales, MWA 2(b),
- c. **Availability:** The assets representing this reserve are always available and used to cover the everyday expenditure incurred by a going concern.

- d. **Limit:** Fifty percent (50%) of annual general unrestricted operating expenses.

APPROVED AND ADOPTED this 11th day of June 2009 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Michael Page, President

ATTEST:

Art Bishop, Secretary