

*Mendocino County Russian River Flood Control &
Water Conservation Improvement District*

STAFF REPORT

Agenda Item 6: Financial Policy Update

Monday, November 4, 2024

The Strategic Plan relevant priority is **Administration** through sound and sustainable management of District Finances.

Background

The Board approved updated Financial Policies on August 5, 2024 including the reformatting into a Policy Manual, and an additional Capital Assets Policy on September 9, 2024.

Discussion

At the time of approving the Financial Policies in August 2024, the Board asked the Treasurer and General Manager to review the Reserves Policy and present any suggested changes. The following suggestions are being presented for discussion. Trustees are welcome to suggest additional updates and may refer to the **attached** 2150 Reserve Policy in full.

Emergency Reserve:

Purpose: This amount is intended to be protection against catastrophic loss and to provide a cushion in the event of unexpected circumstances.

Limit: ~~25 percent of the value of fixed assets~~

Limit: 15% of annual operating expenses

The District has a small value of fixed assets. Linking the emergency reserve to annual expenses could be a more relevant benchmark. Below compares the current and suggested limits:

25% of fixed assets = \$37,500

15% of operating expenses = \$73,800

Water Supply Reliability Reserve:

Treasurer Bailey will lead a discussion on consideration of a methodology for setting reserve goals and how to reflect in policy.

Policy Title

Staff is also recommending changing the title from “2150 Reserve Policy” to “2150 Reserves.”

Recommendation:

- Move to adopt changes to Policy 2150 Reserves (stating the changes);
or
- Or continue item to a future meeting.

Attachments:

- Policy 2150 Reserve Policy
- Account Balance worksheet
- Approved Fiscal Year 2024-2025 Budget

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Prepared and submitted to the Board of Trustees by: *Elizabeth Salomone, General Manager*

Mendocino County Russian River Flood Control & Water Conservation Improvement District

Policies

2150 Reserve Policy

The District shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. The Board of Trustees adopts policies to maintain a prudent level of financial resources and provide cost-effective, efficient public services through a stable rate structure and gradual rate increases. The District must be prepared for larger-scale regional investments that help to secure water resources within its service area and must be prepared for sudden emergencies and unexpected costs. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Fund replacement and major repairs for the District's physical assets.
- b) Fund regular replacement of computer hardware and software.
- c) Fund designated projects, programs, and/or other special uses not otherwise funded by grants or requiring additional monetary support;
- d) Fund capital improvements; and
- e) Maintain minimal operational sustainability in periods of economic uncertainty.

Use of District Reserves is limited to available "Unrestricted" Funds (not obligated by law, contract or agreement), including donations, interest earned, fees for service, or other non-grant earnings. All special use funds will be designated by formal action of the Board of Trustees. The goal of the District is to maintain reserves at a level that equals or exceeds the sum of the following components:

- a) Operating Reserve:
Purpose: This amount is intended to mitigate funding six months of operating expenses.
Limit: 50 percent of the annual operating expense budget.
- b) Capital Reserve:
Purpose: This amount is intended to replace existing assets and fund future capital projects
Limit: 15 percent of gross fixed assets as of the audit of the prior year plus 10 percent of the annual operating expense budget.
- c) Emergency Reserve:
Purpose: This amount is intended to be protection against catastrophic loss and to provide a cushion in the event of unexpected circumstances.
Limit: 25 percent of the value of fixed assets
- d) Water Supply Reliability Reserve:
Purpose: Reserves set aside for the specific purpose of securing/purchasing water supply and/or infrastructure for storage or supply distribution.
Limit: The costs associated with the District's share of these expenses could be as high as \$100 million. However, in order to initiate a prudent policy direction, the limit of this reserve shall not exceed \$20 million without further agreement on specific project participation and reserve assignment.

The District does not have a firm value to determine a contribution factor for Water Supply Reliability Reserve. Therefore, this Reserves Policy establishes that when revenue deposits exceed the account limits specified in District Policy, those exceedances will be deposited into Water Supply Reliability Reserve.

Monitoring Reserve Levels: The General Manager, in collaboration with the Treasurer, shall perform a reserve status analysis annually, to be provided to the Board of Directors' annual deliberation/approval of Budget and Reserve Funds.

Additional information may be provided to the Board of Trustees upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.

Account Balance Worksheet

RESERVES	FY 2023/24	FY 2023/24	FY 2024/25	Amt Change
	APPROVED Budget	Actuals Projected to 6/30/24	DRAFT Budget	from previous FY Budget
Capital (15% of fixed assets + 10% operating expense budget)	\$ 73,670	\$ 73,670	\$ 123,000	\$ 49,330
Emergency (Emergency: 25% of fixed assets)	\$ 37,500	\$ 37,500	\$ 37,500	\$ -
Operating (Operating: 50% of operating expense budget)	\$ 255,850	\$ 255,850	\$ 246,000	\$ (9,850)
Water Supply Reliability (Remainder) (Now held in both SBMC & LAIF)	\$ 132,583	\$ 301,773	\$ 311,793	\$ 179,210
RESERVES TOTALS:	\$ 499,603	\$ 668,793	\$ 718,293	\$ 218,690
OTHER ACCOUNTS		Actuals 6/30/24		
SBMC Savings, general		\$ 100,081		
SBMC Checking		\$ 321,312		
OTHER ACCOUNTS TOTALS:		\$ 421,393		

Exhibit A
Mendocino County Russian River Flood Control
Water Conservation Improvement District
Fiscal Year 2024-2025 Budget
Board Approved on June 3, 2024

REVENUE	Proposed
Water Sales, Contracted (7,497.15 af at \$61 per af)	\$ 457,326
Property Taxes	\$ 65,000
Interest, LAIF & Savings	\$ 15,050
TOTAL REVENUE	\$ 537,376

EXPENSES	Proposed
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Water Supply Expenses:

Water Rights - Compliance	\$ 31,500
Water Supply Projects	\$ 162,000
Stream flow gage (USGS)	\$ 15,000
Joint Powers Authority Membership contributions	\$ 3,000
Subtotal, Water Supply Expenses	\$ 211,500

General & Administrative Expenses:

Consulting - General	\$ 36,000
Vehicle	\$ 2,000
Insurance	\$ 7,000
Local Agency Formation Commission (LAFCo)	\$ 1,100
Memberships (ACWA & CSDA)	\$ 6,000
Office Operating, Rent, Utilities	\$ 8,000
Training, Conferences, Associated Costs	\$ 6,000
Stipends	\$ 13,000
Property Tax Administration Fees	\$ 1,000
Election	\$ 300
Payroll	\$ 193,400
Unfunded Pension Liability	\$ 6,000
Subtotal, General & Administrative Expenses	\$ 279,800

TOTAL EXPENSES	\$ 491,300
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	Proposed
TOTAL REVENUE	\$ 537,376
less TOTAL OPERATING EXPENSES	\$ 491,300
EQUALS	\$ 46,076