



San Gabriel Basin Water Quality Authority

1720 W. Cameron Avenue, Suite 100, West Covina, CA 91790 • 626-338-5555 • Fax 626-338-5775

**WQA ADMINISTRATIVE/FINANCE COMMITTEE
AND SPECIAL MEETING OF THE BOARD OF DIRECTORS
TO BE HELD ON TUESDAY, NOVEMBER 9, 2021 AT 10:00 A.M.
AT
1720 W. CAMERON AVE., SUITE 100 IN WEST COVINA, CA**

With passage and signing of AB 361 and in light of the ongoing Statewide State of Emergency originally declared by Governor Newsom on March 4, 2020, WQA Board Meetings will continue to be conducted via remote teleconferencing, subject to the requirements of Government Code Section 54953(e). Members of the public can participate remotely via Zoom following the instructions provided below. Members of the public may also submit comments in writing to Stephanie@wqa.com which comments will be distributed to the members of the Board, provided such written comments are received prior to the meeting start time. To address the Board during the meeting you may use the "raise hand" feature and you will be called up on when appropriate.

To attend the meeting please register in advance at:
https://us06web.zoom.us/webinar/register/WN_6rDKuAw_RQmoJ7YJEp2nOw

A confirmation email will be sent to you with instructions on how to join the meeting virtually or a call-in option

**The Administrative/Finance Committee meeting is noticed as a joint committee meeting with the Board of Directors for the purpose of compliance with the Brown Act. Members of the Board that are not assigned to the Administrative/Finance Committee may attend and participate as members of the Board, whether or not a quorum of the Board is present. In order to preserve the function of the Committee as advisory to the Board, members of the Board who are not assigned to the Administrative/Finance Committee will not vote on matters before the Committee*

AGENDA

Committee Members: Mike Whitehead, Lynda Noriega and Mark Paulson

Liaison Member: Dave Michalko

- I. Call to Order
- II. Public Comment
- III. Discussion Regarding Interim Budget and Assessment Reserve Review for FY 21/22 [enc]
- IV. Executive Director's Report
- V. Adjournment



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AGENDA SUBMITTAL

To: WQA Administrative / Finance Committee
From: Randy Schoellerman, Executive Director
Date: November 9, 2021
Subject: **Interim Budget and Assessment Reserve Review for FY 21/22**

OVERVIEW

In February 2021, the Board approved Administrative Procedure No. 41, Reserve Fund Policy.

Section 4.1 of the Procedure defines and establishes Assessment Reserves as the reserves that cover operating costs. The Assessment Reserves are funded by an annual assessment on prescriptive pumping rights in the San Gabriel Basin. The Policy establishes a minimum assessment reserve of 6 months or 50 percent of current budgeted operating expenses with a goal of achieving reserves of 9 months or 75 percent of budgeted expenses.

Section 6, Reserve Procedures, requires that an interim reserve review be performed and presented to the Administrative / Finance Committee to determine the status of reserve funds.

This presentation is the Interim Assessment and Reserve Review in accordance with the Policy.

DISCUSSION

The assessment rate is determined during the annual WQA budget process. Typically, the WQA draft budget is presented to the Board and the public during April and May of each year, with the budget being approved at the May Board Meeting. The Board adopted the FY 21/22 budget on May 19, 2021, with an annual assessment of \$12/acre ft on 197K/acre ft of prescriptive pumping rights.

Staff is presenting the following documents to the Administrative/Finance Committee for discussion and analysis.

- Page 1 Summary of the Approved Budget for FY 21/22 - shows the assessment reserve for WQA with the current assessment of \$12 per acre foot of prescriptive pumping rights. For reference, as of April 2021, the maximum amount that WQA can assess is \$15.23 per acre foot. This limit is increased each year by the April CPI.
- Updated Detail of Assessment Reserves - FY 20/21 has ended and staff has been able to calculate a more accurate use of assessments for the fiscal year ended 6-30-2021; this schedule compares the budgeted increase in assessments to the actual increase in assessments for FY 20/21.
- Charts and schedules of projected assessment needs for the next five years (see charts and schedules A, B, C and D).

Included in the projections are the impacts of the Prop 1 funding for SEMOU projects, three years of Prop 68 funding for T & R throughout the San Gabriel Basin, and the annual operating costs and funding acquisition costs.

RECOMMENDATION/PROPOSED ACTION

This item is for discussion purposes only and no action is required.

Attachments

Page 1 Summary of Approved Budget for FY 21/22

Detail of Assessment Reserves from Page 1 of Approved Budget

Schedules A, B, C and D – 5-year projections with annual assessments ranging from \$12/acre ft. to \$14/acre ft.

Procedure 41 Reserve Fund Policy

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY
BUDGET SUMMARY
FOR FISCAL YEAR ENDING JUNE 30, 2022**

FINAL adopted - 5/19/2021

LINE ITEMS	Other Projects	Baldwin Park Operable Unit	El Monte Area Operable Unit	So. El Monte Operable Unit	Puente Valley Operable Unit	Area Three Operable Unit	Administration	Total Project Budget
CAPITAL COSTS	<u>\$2,427,400</u>	<u>\$869,280</u>	<u>\$83,100</u>	<u>\$147,600</u>	<u>\$44,600</u>	<u>\$52,500</u>	<u>\$0</u>	<u>\$3,624,480</u>
WQA Salaries	0	0	0	0	6,000	0	0	6,000
WQA Benefits	0	0	0	0	2,000	0	0	2,000
WQA Overhead	0	0	0	0	3,000	0	0	3,000
Government Relations	45,700	194,000	63,000	114,200	23,600	45,900	0	486,400
Community Relations	16,700	33,400	20,100	33,400	10,000	6,600	0	120,200
Project Construction	0	0	0	0	0	0	0	0
Contractors/Grants	2,365,000	641,880	0	0	0	0	0	3,006,880
Site Acquisition	0	0	0	0	0	0	0	0
OPERATING EXPENSES	<u>\$6,256,667</u>	<u>\$18,285,221</u>	<u>\$3,739,010</u>	<u>\$12,363,263</u>	<u>\$280,467</u>	<u>\$4,948,730</u>	<u>\$1,101,500</u>	<u>\$46,974,857</u>
WQA Salaries	5,000	117,500	35,500	62,500	25,000	7,500	412,800	665,800
Prop 68-WQA Salaries	33,000	46,200	26,400	52,800	6,600	13,200	0	178,200
WQA Benefits	12,667	54,178	21,625	38,417	10,533	6,830	140,750	285,000
WQA Overhead	19,000	81,850	29,850	57,650	15,800	10,400	547,950	762,500
Legal/Consultants	0	85,000	0	0	0	0	0	85,000
Utilities	0	0	0	20,000	0	0	0	20,000
Other (See attached pages)	0	12,000	1,000	0	4,000	0	0	17,000
Prop 68-Consultants	66,000	79,200	52,800	105,600	13,200	26,400	0	343,200
Prop 68-Treatment & Remediation Costs	6,121,000	508,600	3,140,800	7,874,400	0	4,884,400	0	22,529,200
Treatment & Remediation Costs	0	17,300,693	431,035	4,151,896	205,333	0	0	22,088,957
TOTAL CAPITAL & OPERATING	<u>\$8,684,067</u>	<u>\$19,154,501</u>	<u>\$3,822,110</u>	<u>\$12,510,863</u>	<u>\$325,067</u>	<u>\$5,001,230</u>	<u>\$1,101,500</u>	<u>\$50,599,337</u>
REVENUES	<u>\$8,684,067</u>	<u>\$19,154,501</u>	<u>\$3,822,110</u>	<u>\$12,510,863</u>	<u>\$325,067</u>	<u>\$5,001,230</u>	<u>\$1,101,500</u>	<u>\$50,599,337</u>
Rest. Fund/Title XVI/PRPs/Producers								
Restoration Funds (RF)	0	0	0	0	0	0	0	0
Potentially Responsible Parties	0	17,277,098	431,035	0	205,333	0	0	17,913,466
Water Producers (PROD)	0	1,002,440	0	1,700,000	0	0	0	2,702,440
State - SWRCB/Prop 84/Prop	2,365,000	0	0	1,571,342	0	0	0	3,936,342
SEMOU Cooperative Agreement	0	0	0	451,896	0	0	0	451,896
SEMOU Settlement Funding	0	0	0	0	0	0	0	0
Interest income	0	0	0	0	0	0	30,000	30,000
SWRCB DFA Proposition 68	6,220,000	634,000	3,220,000	8,301,000	19,800	4,924,000	0	23,318,800
WQA Assessment	99,067	240,963	171,075	486,625	99,933	77,230	1,071,500	2,246,393
ASSESSMENT RESERVE								
<i>Reserve balance from FY 2019-20</i>								2,121,805
<i>WQA 20-21 Assessments Collected @ \$12 acre foot</i>								2,371,320
<i>WQA 20-21 Projected Costs Funded By Assessments</i>								(2,060,845)
<i>Projected reserve balance for FY 2020-21</i>								2,432,280
<i>WQA Assessments Collected @ \$12 acre foot</i>								2,371,320
<i>WQA 21-22 Budgeted Costs Funded By Assessments</i>								(2,246,393)
<i>Projected Assessment Reserve for FY 21-22</i>								2,557,207
WQA ASSESSMENT SUMMARY - "See Annotation 33, page 52"								
WQA ASSESSMENT FOR FY 2021-22								<u>\$2,371,320</u>
WQA ASSESSMENT PER ACRE FOOT								<u>\$12</u>

	<u>ASSESSMENT RESERVE - APPROVED BUDGET</u>		<u>UPDATED ASSESSMENT RESERVE -</u>	
	<u>MAY 19, 2021</u>		<u>NOVEMBER 2021</u>	
		Net Increase		Net Increase
Reserve balance from FY 2019-20	2,121,805		2,121,805	
WQA 20-21 Assessments Collected @ \$12 acre foot	2,371,320	} 310,475	2,371,320	} 338,036
WQA 20-21 Projected Costs Funded By Assessments	(2,060,845)		(2,033,284)	
Projected reserve balance for FY 2020-21	2,432,280		2,459,841	
WQA Assessments Collected @ \$12 acre foot	2,371,320	} 124,927	2,371,320	} 224,131
WQA 21-22 Budgeted Costs Funded By Assessments	(2,246,393)		(2,147,189)	
Projected Assessment Reserve for FY 21-22	2,557,207		2,683,972	

A

San Gabriel Basin WQA

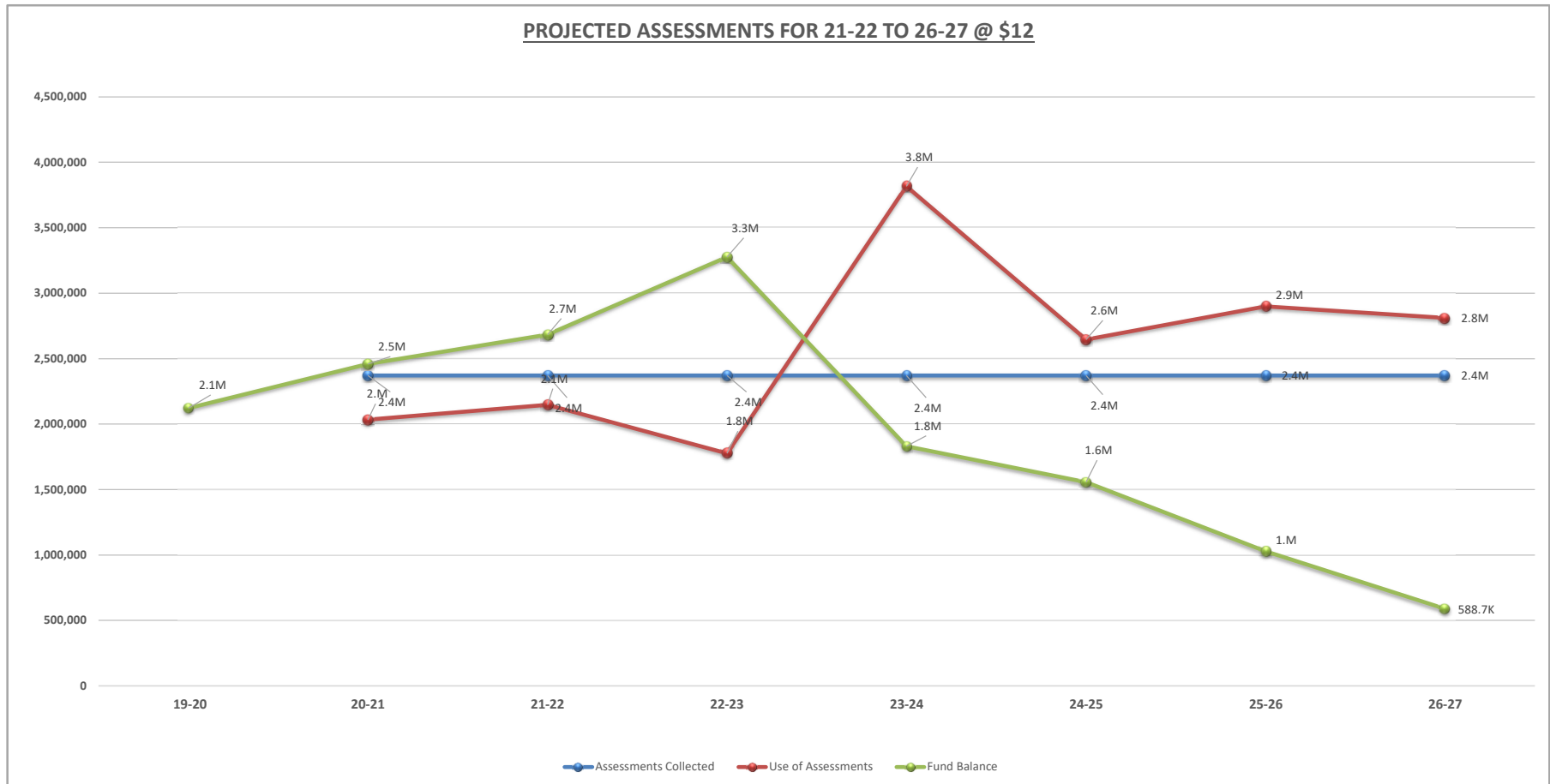
RESERVE MINIMUM
Use of Assessments

Projected Assessment Activity for the next 5 years

Assessments at \$12 for FY 21/22 to FY 26/27

- Includes Whitmore T&R for 5 years; with 3 yrs paid by Prop 68 (\$135k ANNUAL)
plus increase to \$270K ANNUAL O & M for FY 24/25 after site expansion
- Prop 68 Reimbursement \$362K for Prior Assessment Funded O & M (FY 22/23)
- Prop 1 Matching Funding of \$250K for Site Investigations for 2 years
- Prop 1 Matching Funding for Whitmore Site Expansion \$2M for 2 years (FY 22/23 & FY 23/24)
- Prop 1 Implementation Project for 2 years for \$500K (FY 23/24 & 24/25)

Fiscal Year	Assessments		Use of Assessments	Fund Balance	RESERVE MINIMUM	
	Collected	Assessments			75%	50%
19-20				2,121,807		
\$12 20-21	2,371,320	2,033,287	2,459,840		1,524,965	1,016,644
\$12 21-22	2,371,320	2,147,189	2,683,971		1,610,392	1,073,595
\$12 22-23	2,371,320	1,777,604	3,277,687		1,333,203	888,802
\$12 23-24	2,371,320	3,817,783	1,831,224		2,863,337	1,908,892
\$12 24-25	2,371,320	2,646,356	1,556,188		1,984,767	1,323,178
\$12 25-26	2,371,320	2,899,793	1,027,715		2,174,845	1,449,897
\$12 26-27	2,371,320	2,810,307	588,728		2,107,730	1,405,154



San Gabriel Basin WQA

B

RESERVE MINIMUM
Use of Assessments

Projected Assessment Activity for the next 5 years

Assessments at \$12 for FY 21/22 to FY 22/23 and then increase to \$13 for FY 23/24 to FY 26/27

Includes Whitmore T&R for 5 years; with 3 yrs paid by Prop 68 (\$135k ANNUAL)

plus increase to \$270K ANNUAL O & M for FY 24/25 after site expansion

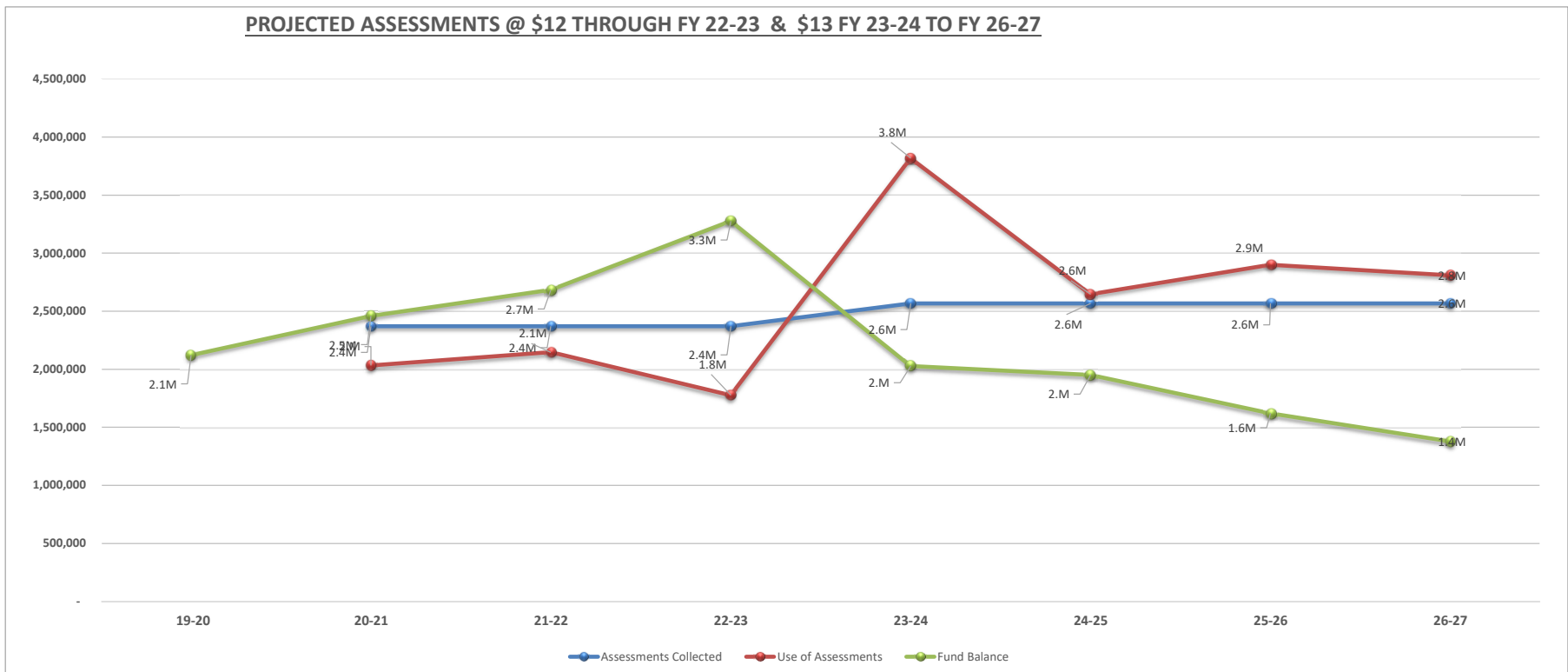
Prop 68 Reimbursement \$362K for Prior Assessment Funded O & M (FY 22/23)

Prop 1 Matching Funding of \$250K for Site Investigations for 2 years

Prop 1 Matching Funding for Whitmore Site Expansion \$2M for 2 years (FY 22/23 & FY 23/24)

Prop 1 Implementation Project for 2 years for \$500K (FY 23/24 & 24/25)

Fiscal Year	Assessments		Use of	Fund Balance	RESERVE MINIMUM	
	Collected	Assessments	Assessments		75%	50%
19-20				2,121,807		
\$12 20-21	2,371,320	2,033,287		2,459,840	1,524,965	1,016,644
\$12 21-22	2,371,320	2,147,189		2,683,971	1,610,392	1,073,595
\$12 22-23	2,371,320	1,777,604		3,277,687	1,333,203	888,802
\$13 23-24	2,568,930	3,817,783		2,028,834	2,863,337	1,908,892
\$13 24-25	2,568,930	2,646,356		1,951,408	1,984,767	1,323,178
\$13 25-26	2,568,930	2,899,793		1,620,545	2,174,845	1,449,897
\$13 26-27	2,568,930	2,810,307		1,379,168	2,107,730	1,405,154



San Gabriel Basin WQA

C

RESERVE MINIMUM
Use of Assessments

Projected Assessment Activity for the next 5 years

Assessments at \$12 for FY 20/21 to FY 22/23; \$13 for FY 23-24 to 24-25; \$14 for FY 25-26, 26-27

Includes Whitmore T&R for 5 years; with 3 yrs paid by Prop 68 (\$135k ANNUAL)

plus increase to \$270K ANNUAL O & M for FY 24/25 after site expansion

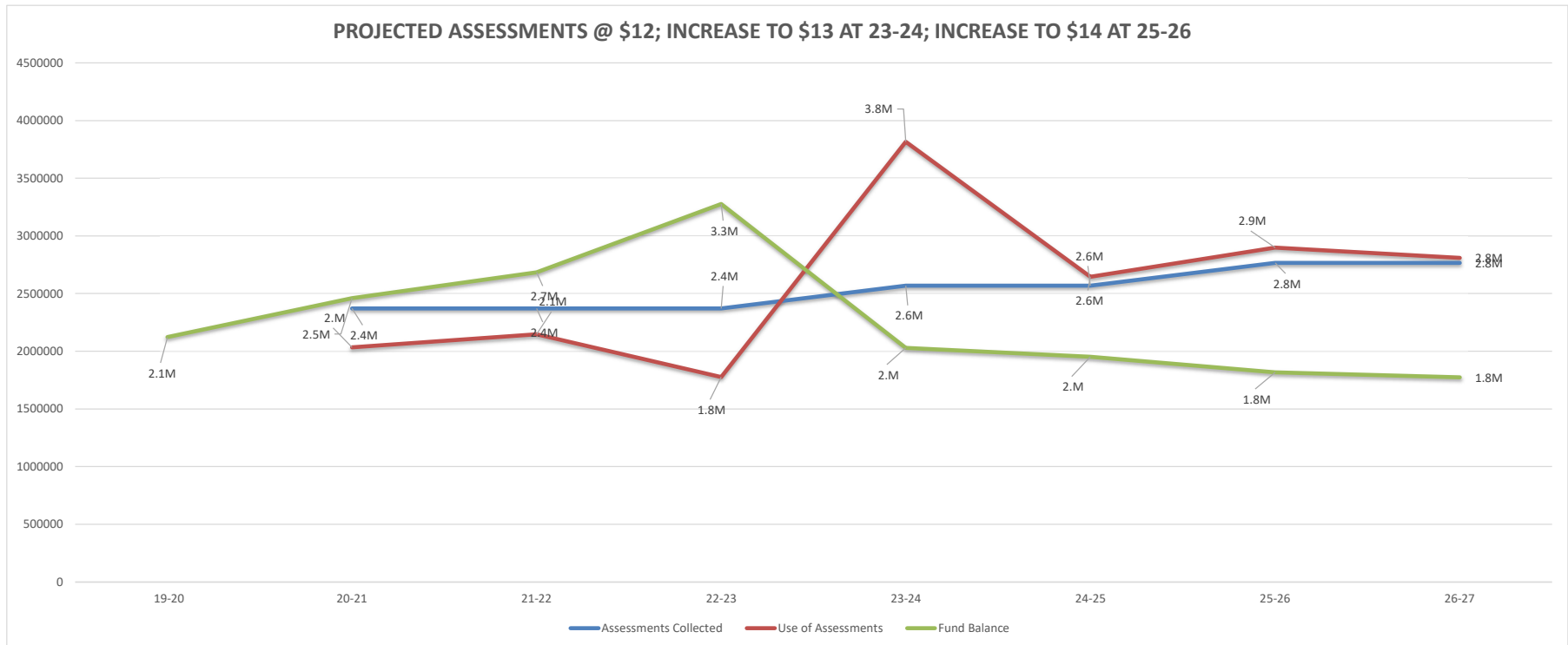
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Prop 1 Matching Funding for Whitmore Site Expansion \$2M for 2 years (FY 22/23 & FY 23/24)

Prop 1 Implementation Project for 2 years for \$500K (FY 23/24 & 24/25)

Fiscal Year	Assessments Collected	Use of Assessments	Fund Balance	RESERVE MINIMUM Use of Assessments	
				75%	50%
19-20			2,121,807		
\$12 20-21	2,371,320	2,033,287	2,459,840	1,524,965	1,016,644
\$12 21-22	2,371,320	2,147,189	2,683,971	1,610,392	1,073,595
\$12 22-23	2,371,320	1,777,604	3,277,687	1,333,203	888,802
\$13 23-24	2,568,930	3,817,783	2,028,834	2,863,337	1,908,892
\$13 24-25	2,568,930	2,646,356	1,951,408	1,984,767	1,323,178
\$14 25-26	2,766,540	2,899,793	1,818,155	2,174,845	1,449,897
\$14 26-27	2,766,540	2,810,307	1,774,388	2,107,730	1,405,154



San Gabriel Basin WQA

D

Projected Assessment Activity for the next 5 years

Assessments at \$12 for FY 21/22 and 22/23; increase to \$14 for FY 23/24 through FY 26/27

Includes Whitmore T&R for 5 years; with 3 yrs paid by Prop 68 (\$135k ANNUAL)

plus increase to \$270K ANNUAL O & M for FY 24/25 after site expansion

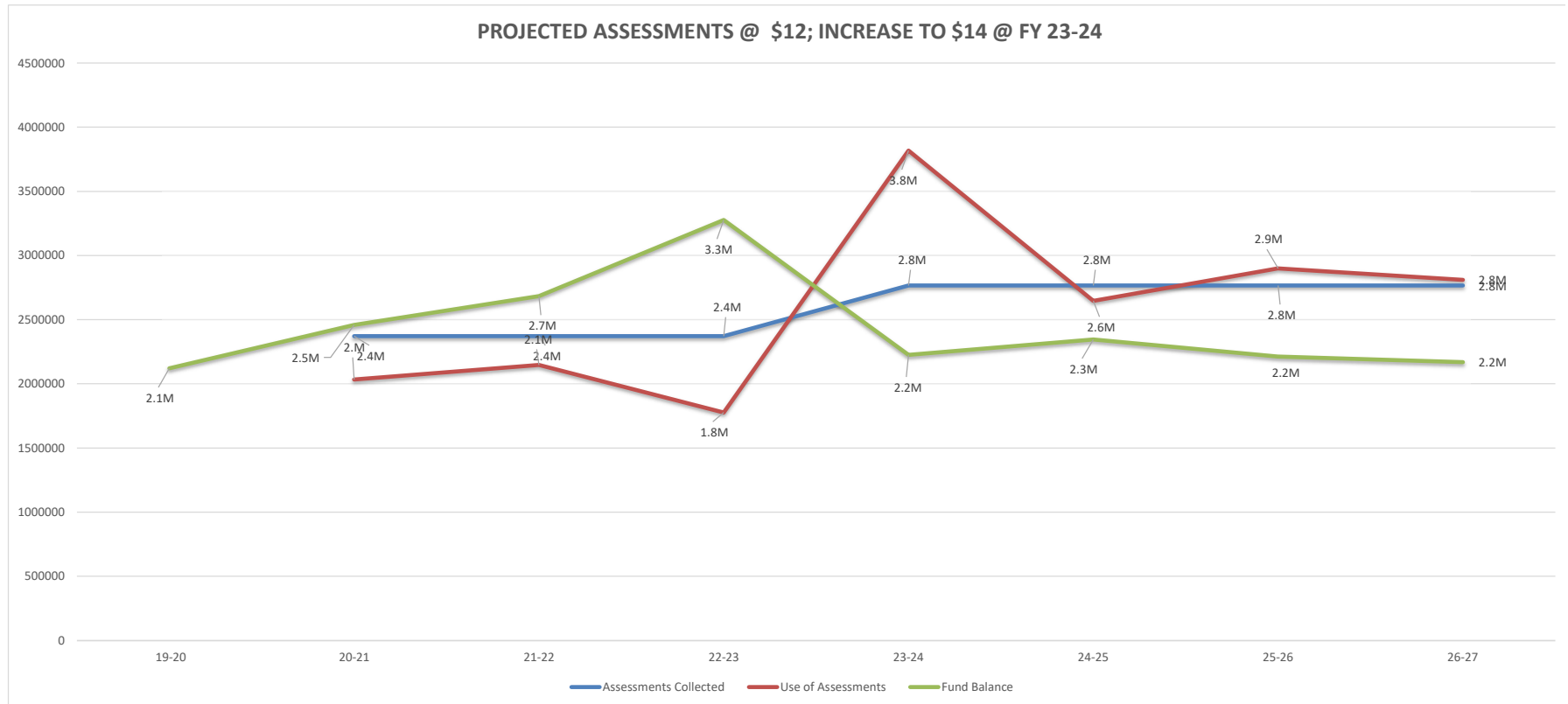
Prop 68 Reimbursement \$362K for Prior Assessment Funded O & M (FY 22/23)

Prop 1 Matching Funding of \$250K for Site Investigations for 2 years

Prop 1 Matching Funding for Whitmore Site Expansion \$2M for 2 years (FY 22/23 & FY 23/24)

Prop 1 Implementation Project for 2 years for \$500K (FY 23/24 & 24/25)

Fiscal Year	Assessments Collected	Use of Assessments	Fund Balance	RESERVE MINIMUM Use of Assessments	
				75%	50%
19-20			2,121,807		
\$12.00 20-21	2,371,320	2,033,287	2,459,840	1,524,965	1,016,644
12.00 21-22	2,371,320	2,147,189	2,683,971	1,610,392	1,073,595
12.00 22-23	2,371,320	1,777,604	3,277,687	1,333,203	888,802
14.00 23-24	2,766,540	3,817,783	2,226,444	2,863,337	1,908,892
14.00 24-25	2,766,540	2,646,356	2,346,628	1,984,767	1,323,178
14.00 25-26	2,766,540	2,899,793	2,213,375	2,174,845	1,449,897
14.00 26-27	2,766,540	2,810,307	2,169,608	2,107,730	1,405,154



ADMINISTRATIVE PROCEDURES

No. 41

Date: 2/17/2021

Revised:

Page 1 of 3

Reserve Fund Policy

1. Purpose

The purpose of maintaining adequate reserves is to ensure that there are appropriate levels of working capital in the Authority's funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable assessment rates.

Properly designed policies send a positive signal to the community of water producers, ratepayers, responsible parties and regulatory agencies that the Board is committed to the Authority's long-term financial health and viability. Prudent financial management and best practices dictate that the Authority maintain appropriate reserves to fund daily operations and those reserves required as a result of legal or external requirements.

2. Objectives

- To establish sound formal fiscal reserve policies to ensure strong fiscal management to guide future Authority decisions.
- To build adequate reserves over time. This action will provide the Authority with resources to help stabilize the Authority's finances and position it more easily to absorb economic downturns or large-scale emergencies.
- To help smooth assessment rates from year-to-year for prescriptive pumping right holders.
- To provide funding for current and future replacement of existing assets as they reach the end of their useful lives.
- To assist the Authority in meeting its short-term and long-term obligations and to ensure that the Authority maintains the highest possible credit rating.

3. Definitions

Reserves are defined as the amount of Cash and Investments in that fund, plus the Accounts Receivable, less the Accounts Payable and less Amounts due to Others in the fund. This methodology indicates the relatively liquid portion of total enterprise fund capital, which constitutes a margin or buffer for meeting obligations.

3.1 Designated Reserves: Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose (classified as unrestricted on the audited financial statements).

3.2 Restricted Reserves: Restricted reserves are reserves that are restricted by the Board of Directors, or by an outside source, such as by statute, regulation, court order, or contract (classified as restricted on the audited financial statements).

3.3 Undesignated Reserves: It is assumed that all reserves will be Designated or Restricted, and therefore, there will be no undesignated funds per policy. (These are classified as unrestricted on the audited financial statements).

NOTE: The Authority's audited financial statements segregate Net Position, which includes the effects of all assets and liabilities, some of which are not liquid, or have not been included in the current year budget. Therefore, the definition of Reserves is different than the Net Position, and the two terms should not be used synonymously.

4. Designated Reserves

4.1 Assessment Reserves (operating reserves): These reserves cover operating costs for an established period of time. These reserves will ensure continuity of service regardless of cash flow and are considered working capital to be used to fund current expenses as needed. The funding for assessment reserves (operating reserves) is generated by annual assessments on prescriptive pumping rights in the San Gabriel Basin.

Policy: Maintain minimum assessment reserves at six (6) months or 50 percent of current year budgeted expenses with a goal of achieving assessment reserves of nine (9) months or 75 percent of current year budgeted expenses. The balance will fluctuate from month to month as assessment revenues are utilized to fund operations. However, the year-end objective is to achieve the minimum budgeted ending reserves balance.

5. Restricted Reserves

Reserves for Future Commitments: These reserves are established by the Board and/or by contract to ensure that specific funds are set aside to provide for future payments. The following are currently in place.

5.1 Federal Funding Program Administration (FFPA) projects awarded but not yet reimbursed to the award recipient.

5.2 South El Monte Operable Unit Trustee Funds – These are funds recovered from responsible parties to be utilized for funding specific projects as defined by contract.

Policy: Interest earned in these reserves shall be credited to these reserves. There should be a positive balance in each of these funds at all times.

Other Special Purpose Reserves: The Board may, at its discretion, set aside reserves for a special project or purchase.

6. Reserve Procedures

- The Director of Finance will perform an annual reserve review to be submitted to the Board of Directors as a component of the annual budget process.
- The annual review determines if the funding levels are still appropriate and aligned with Board goals and objectives.
- Periodically, an interim reserve review will be performed and presented to the Administrative / Finance Committee to determine current status of reserve funds.
- A reserve review will be required when a major change in conditions threatens the reserve levels established by this policy.