



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
TO BE HELD ON TUESDAY, DECEMBER 12, 2023 AT 10:00 A.M.
AT
1720 W. CAMERON AVE., SUITE 100 IN WEST COVINA, CA**

Zoom Registration Link:

<https://us06web.zoom.us/meeting/register/tZclcu6gpz4oGNSGXEKZYBKIOYh7n5dM9vht>

AGENDA

Committee Members: Lynda Noriega, Mark Paulson and Robert DiPrimio

Liaison Member: Dave Michalko

- I. Call to Order
- II. Remote Participation Declaration - AB 2449
[Government Code Section 54953(f)]
 - a. Notification of Just Cause
 - b. Emergency Circumstances Requests
- III. Public Comment
- IV. Discussion Regarding Interim Budget and Assessment Reserve Review for FY 23/24 [enc]
- V. Executive Director's Report
- VI. Adjournment



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AGENDA SUBMITTAL

To: WQA Administrative / Finance Committee
From: Randy Schoellerman, Executive Director
Date: December 12, 2023
Subject: **Interim Budget and Assessment Reserve Review for FY 23/24**

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 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 23/24 budget on May 24, 2023, 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 23/24 - shows the assessment reserve for WQA with the current assessment of \$12 per acre foot of prescriptive pumping rights. For reference, as of January 2024, the maximum assessment that can be charged is \$20.00 per acre foot. This limit is increased each subsequent year by the April CPI-U.
- Updated Detail of Assessment Reserves - FY 22/23 has ended and staff has been able to determine the actual use of assessments for the fiscal year ended 6-30-2023. This schedule compares the budgeted increase in assessments to the actual increase in assessments for FY 22/23.
- Charts and schedules of projected assessment needs for the next five years (see charts and schedules A, B, and C – will be available at the Committee meeting).

Included in the projections are the impacts of the Prop 1 funding for SEMOU projects, five years of Prop 68 funding for T & R throughout the San Gabriel Basin, and the annual operating costs, funding acquisition costs as well as the federal funding from Restoration Funds received in September 2022 and March 2023.

RECOMMENDATION/PROPOSED ACTION

Discussion of Assessment Reserve analysis and projected assessments.

Attachments

- *Page 1 Summary of Approved Budget for FY 23/24*
- *Detail of Assessment Reserves from Page 1 of Approved Budget*
- *Schedules A, B, and C: 5-year projections with annual assessments ranging from \$12/acre-ft. to \$14 acre-ft. (will be available at the Committee meeting)*
- *Procedure 41 Reserve Fund Policy*

**SAN GABRIEL BASIN WATER QUALITY AUTHORITY
BUDGET SUMMARY
FOR FISCAL YEAR ENDING JUNE 30, 2024**

FINAL Adopted May 24, 2023

LINE ITEMS	Other Projects (7 Projects)	Baldwin Park Operable Unit (11 Projects)	El Monte Area Operable Unit (5 Projects)	So. El Monte Operable Unit (11 Projects)	Puente Valley Operable Unit (5 Projects)	Area Three Operable Unit (3 Projects)	Prop 68	Operating	Total Project Budget
CAPITAL COSTS	<u>\$6,309,586</u>	<u>\$11,201,442</u>	<u>\$1,610,462</u>	<u>\$400,400</u>	<u>\$7,715,313</u>	<u>\$2,742,867</u>	<u>\$0</u>	<u>\$0</u>	<u>\$29,980,070</u>
WQA Salaries	0	0	0	0	16,000	5,000		0	21,000
WQA Benefits	0	0	0	0	5,333	1,667		0	7,000
WQA Overhead	0	0	0	0	8,000	2,500		0	10,500
Government Relations	59,100	223,300	57,700	118,900	27,000	45,900		0	531,900
Community Relations	20,100	31,500	14,300	31,500	14,300	8,400		0	120,100
Project Construction	0	0	0	0	0	0		0	0
Contractors/Grants	6,230,386	10,946,642	1,538,462	250,000	7,644,680	2,679,400		0	29,289,570
Site Acquisition	0	0	0	0	0	0		0	0
OPERATING EXPENSES	<u>\$6,166,834</u>	<u>\$19,714,021</u>	<u>\$4,061,235</u>	<u>\$6,765,506</u>	<u>\$273,500</u>	<u>\$4,196,233</u>	<u>\$383,333</u>	<u>\$1,289,134</u>	<u>\$42,849,796</u>
WQA Salaries	25,000	127,500	42,500	139,500	35,000	6,500		448,000	824,000
Prop 68-WQA Salaries	0	0	0	0	0	0	100,000	0	100,000
WQA Benefits	8,334	42,112	14,050	46,500	11,667	2,100	33,333	136,905	295,000
WQA Overhead	12,500	63,750	21,250	69,750	17,500	3,300	50,000	704,229	942,279
Prop 68 - WQA Benefits	0	0	0	0	0	0	0	0	0
Prop 68 - WQA Overhead	0	0	0	0	0	0	0	0	0
Legal/Consultants	0	100,000	0	3,000	0	0	0	0	103,000
Utilities	0	0	0	20,000	0	0	0	0	20,000
Other (See attached pages)	0	12,000	1,000	0	4,000	0	0	0	17,000
Prop 68-Consultants	0	0	0	0	0	0	200,000	0	200,000
Prop 68-Treatment & Remediation	6,121,000	379,000	3,551,400	4,536,756	0	4,184,333	0	0	18,772,489
Treatment & Remediation Costs	0	18,989,659	431,035	1,950,000	205,333	0	0	0	21,576,027
TOTAL CAPITAL & OPERATING	<u>\$12,476,419</u>	<u>\$30,915,463</u>	<u>\$5,671,697</u>	<u>\$7,165,906</u>	<u>\$7,988,813</u>	<u>\$6,939,100</u>	<u>\$383,333</u>	<u>\$1,289,134</u>	<u>\$72,829,865</u>
REVENUES	<u>\$12,476,419</u>	<u>\$30,915,463</u>	<u>\$5,671,697</u>	<u>\$7,165,906</u>	<u>\$7,988,813</u>	<u>\$6,939,100</u>	<u>\$383,333</u>	<u>\$1,289,133</u>	<u>\$72,829,865</u>
Rest. Fund/Title XVI/PRPs/Producers									
Restoration Funds (RF)	2,512,500	7,801,179	1,000,000	239,000	1,200,000	500,000	0	0	13,252,679
Potentially Responsible Parties	0	20,017,006	969,497	0	5,950,013	0	0	0	26,936,516
Water Producers (PROD)	1,352,886	2,476,911	0	1,700,000	700,000	2,179,400	0	0	8,409,196
State - SWRCB/Prop 84/Prop	2,365,000	0	0	200,000	0	0	0	0	2,565,000
SEMOU Cooperative Agreement	0	0	0	0	0	0	0	0	0
SEMOU Settlement Funding	0	0	0	0	0	0	0	0	0
Interest income	0	0	0	0	0	0	0	600,000	600,000
SWRCB DFA Proposition 68	6,121,000	379,000	3,551,400	4,468,423	0	4,184,333	300,000	0	19,004,156
WQA Assessment	125,034	241,367	150,800	558,483	138,800	75,367	83,333	689,133	2,062,317
ASSESSMENT RESERVE									
<i>Reserve balance from FY 2021-22</i>									2,542,628
<i>WQA 22-23 Assessments Collected @ \$12 acre foot</i>									2,371,320
<i>WQA 22-23 Projected Costs Funded By Assessments</i>									(1,748,880)
<i>Projected reserve balance for FY 2022-23</i>									3,165,068
<i>Proposed WQA 23-24 Assessments Collected @ \$12 acre foot</i>									2,371,320
<i>WQA 23-24 Budgeted Costs Funded By Assessments</i>									(2,062,317)
<i>Projected Assessment Reserve for FY 23-24</i>									3,474,071
WQA ASSESSMENT SUMMARY - "See Annotation 33, page 52"									
WQA ASSESSMENT FOR FY 2022-23									<u>\$2,371,320</u>
WQA ASSESSMENT PER ACRE FOOT									<u>\$12</u>

	<u>ASSESSMENT RESERVE - APPROVED</u>		<u>UPDATED ASSESSMENT RESERVE -</u>	
	<u>BUDGET</u>	<u>MAY 24, 2023</u>	<u>DECEMBER 2023</u>	
		Net Increase		Net Increase
<i>Reserve balance from FY 2021-2022</i>	2,542,628		2,542,628	
<i>WQA 22-23 Assessments Collected @ \$12 acre foot</i>	2,371,320	} 622,440	2,371,320	} 347,672
<i>WQA 22-23 Projected Costs Funded By Assessments</i>	(1,748,880)		(2,023,648)	
<i>Projected reserve balance for FY 2022-23</i>	3,165,068		2,890,300	
<i>WQA Assessments Collected @ \$12 acre foot</i>	2,371,320	} 309,003	2,371,320	} 405,003
<i>WQA 23-24 Budgeted Costs Funded By Assessments</i>	(2,062,317)		(1,966,317)	
<i>Projected Assessment Reserve for FY 23-24</i>	3,474,071		3,295,303	

ADMINISTRATIVE PROCEDURES

No. 41

Date: 2/17/2021

Amended: 11/16/2022

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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.

4.2 Interest Earned on LAIF Funds: Interest earned on the reserve held in LAIF for the FFPA projects shall be credited to the Authority's unrestricted funds.

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 (SEMOU) Trustee Funds – These are funds recovered from responsible parties to be utilized for funding specific projects as defined by contract.

Policy: Interest earned on the SEMOU reserves shall be credited to these reserves. There should be a positive balance in this fund 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.