

REGIONAL WATER AUTHORITY POLICIES AND PROCEDURES MANUAL

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FINANCIAL DESIGNATION/RESERVE POLICY

The policy establishes financial designation funds to mitigate current and future risks due to revenue shortfalls and unanticipated expenses, or to designate funds for specific purposes. Designation funds are discretionary funds designated by the Regional Water Authority (RWA) Board of Directors to accomplish financial obligations and objectives of the organization. These balances are a crucial consideration in long-term financial planning. The adequacy of the target designation balance and/or annual contributions will be reviewed annually during the RWA budgeting process and may be revised accordingly as necessary, including but not limited to temporary suspension or reduction of minimum target balances. The following designation categories are established:

I. Operating Fund:

- A. Purpose: To ensure cash resources are available to fund daily administration and operations for RWA member services. Additionally, this fund may provide resources for the matching fund component for partnership funding opportunities not previously anticipated during the annual budget process.
- B. Use of Funds: These funds will be used to pay for expenses according to budget and spending authority. This fund may also be used as the matching fund component for partnership opportunities with other local, state or federal organizations that were not anticipated during the budget process. Additionally, this fund will be used to cover the timing lag of invoicing for fees versus receipts of fees. Funds in excess of the target

balance may be used to offset future member fees. This fund will be reviewed on an annual basis to determine the fund's adequacy.

- C. Rationale: RWA has a fiduciary responsibility to maintain adequate cash flow to meet its operating expenses in a timely manner. Additionally, matching funds are sometimes needed on short notice to take advantage of state and/or federal partnership funding opportunities. Government Code Section 53646(b) (3) suggests that an agency should have sufficient cash flow to meet the next six months of budgeted expenses. The next six months of projected cash revenues can be included as a source of cash flow to satisfy this requirement. The Government Finance Officers Association ("GFOA") recommends a baseline of ninety days' worth of working capital (designations) and then adjusts the target based on the particular characteristics of the enterprise fund¹.
- D. Target Balance: A minimum target balance will be 33% or four months of cash to fund budgeted operating expenses. A target balance will be approximately 50% of annual budgeted operating expenses (approximately six months of operating expenses). Since SGA reimburses RWA for common costs, these estimated reimbursements are deducted from total budgeted operating expenses to determine RWA's net cash requirement for operating expenses. Additionally, non-recurring expenditures are not included in the operating expense calculation to determine the target balance.
- E. Replenishment: Annual replenishment will vary, depending upon other designation requirements and current year expense requirements. As part of the annual operating budget process, the operating fund should be budgeted to comply with the target balance. However, the Board may consider suspending the target balance when evaluating the overall budget on an annual basis.

II. Membership Fees Stabilization Fund:

- A. Purpose: To mitigate the financial impact of membership non-renewal.
- B. Use of Funds: These funds will be used to supplement operating cash flow in the event a member does not renew. Alternatively, this fund can be used for pro-rated refunds for membership termination (subject to a proper notice period)². This fund will be reviewed on an annual basis to determine the fund's adequacy.

¹ From GFOA best practices, "Determining the Appropriate Levels of Working Capital in Enterprise Funds", February 2011.

² Only current year fees could be subject to potential refunds and would require Executive Committee approval.

- C. Rationale: RWA derives its financial support from membership fees. Membership fees are based upon the assumption that current year members renew in the subsequent year. The membership base is small and could easily be adversely affected by one or two members choosing not to renew membership. This fund could mitigate requiring additional contributions for membership fees in the year of occurrence. It provides RWA and renewing members a one year planning horizon to address the financial impact of these occurrences.
- D. Target Balance: The minimum target balance is approximately 15% of total membership fees (equal to approximately one large agency, one medium agency, and one small agency).
- E. Replenishment: Annual replenishment will vary, depending upon other designation requirements, current year expense requirements and use of this fund.

III. Subscription Program Revenue Fund:

- A. Purpose: To mitigate the financial impact of uncertain collection of operating fund revenues paid through subscription program funding.
- B. Use of Funds: These funds will be used to supplement operating cash flow in the event subscription program net revenue does not materialize as planned.
- C. Rationale: A portion of RWA's financial support is derived from subscription based programs. Membership fees are based upon some net subscription revenues contributing to the RWA operations. To the extent these net revenues do not materialize as planned, RWA needs additional resources to maintain basic operations.
- D. Target Balance: The minimum target balance of 10% of net subscription program revenues is designated for this fund.
- E. Replenishment: Annual replenishment will vary, depending upon other designation requirements and current year expense requirements.

IV. Subscription Program Fund:

- A. Purpose: To set aside subscription program operating funds for the purposes of administering the subscription programs. These funds are committed by individual contract obligations between the various participating agencies.

- B. Use of Funds: These funds will be used to administer the specific subscription programs.
- C. Rationale: In administering a subscription program, the program often expands beyond one fiscal year. The unused and unspent funds of an active subscription program are restricted for use within that program by contract.
- D. Target Balance: No target balance needed as these funds will be dependent upon the life cycle and existence of a subscription program.
- E. Replenishment: Replenishment will come from the subscription program agreements as needed.

V. Retirement Benefits Fund:

- A. Purpose: To set aside funds for the purpose of funding the cost of the retirement benefits earned for prior service of retired and current employees.
- B. Use of Funds: These funds will be used specifically for funding payment of retirement benefits.
- C. Rationale: This fund is used to set aside non-recurring contributions for retirement related benefits, such as other post-employment benefits or additional lump sum payments for unfunded pension plan liabilities.
- D. Target Balance: The target balance will be dependent upon the actuarial calculation of any actual liability accrued for unfunded retirement benefits of any kind. The valuation will be dependent upon RWA's timing of funding this liability. RWA may fund the historically determined liability over several years.
- E. Replenishment: Replenishment will come from the RWA membership fees.

VI. Sponsorship Contribution Fund:

- A. Purpose: To help offset the costs of special events such as educational workshops, seminars, the annual holiday social and/or long-term collaborative partnerships and projects³.
- B. Use of Funds: Whenever possible, RWA will use all of the funds collected for each special event on the specific event for which those funds were solicited. In the event that not all of the sponsorship funds collected for a specified event are used for the event, any excess funds will be deposited in this fund for use at RWA's next scheduled special event.
- C. Rationale: Sponsorship contributions should be applied toward the costs of hosting and conducting the specific event for which the contributions were solicited. Appropriate costs include: food and non-alcoholic beverages; speaker costs; and miscellaneous event costs such as room rental, audio visual equipment, direct project collaboration costs, long-term partnership costs, etc.
- D. Target Balance: No target balance is required because this fund should be used only when all sponsorship funding for a special event cannot be spent. Excess funds will be used to the next special event.
- E. Replenishment: There is no formal replenishment process for this fund. Contributions for this fund come from private firms, companies and/or public agencies from solicitations for these events.

VII. Strategic Plan Fund

- A. Purpose: To designate resources needed to achieve multi-year objectives and goals that arise from RWA's strategic plan.⁴
- B. Use of Funds: These funds will be used specifically for launching or expanding programs and projects to achieve strategic plan objectives and goals. Designation of contributions of funds, and use of the funds, will be approved by the Board of Directors during the annual budget process as recommended by the Executive Committee.
- C. Rationale: Over the years, RWA has evolved and provides increased services for its members and influence on regional water issues. As RWA continues to expand services, the cost of these services may require significant increase in membership fees. Since RWA members

³ An example would be the Powerhouse Science Center partnership started in fiscal year 2015.

⁴ Establishing this fund does not preclude RWA from immediate implementation of strategic plan objectives as part of the annual budget adoption.

adopt annual budgets and have varied fiscal years that may be different than RWA, setting aside incremental resources to implement these additional services will aid the membership in fiscal budgeting and planning with their various governing bodies.

- D. Target Balance: No target balance is required and will depend upon the Board's approval of which strategic objective to fulfill, the timing of when to start it, and the pace at which to implement it. These factors will influence the required cash flow.
- E. Replenishment: Annual replenishment will vary, depending upon the required costs to achieve the strategic objectives, the timing and pace at which to implement them.