

RESOLUTION NO. 2015-16

**A RESOLUTION OF THE BOARD OF DIRECTORS OF
THE SAN BENITO COUNTY WATER DISTRICT
AMENDING RESOLUTION 2014-08 REGARDING
THE DISTRICT POLICY ON
RESTRICTION AND DESIGNATION OF NET ASSETS/CASH**

WHEREAS a District Policy Regarding Restriction and Designation of Net Asset/Cash was developed with the oversight and participation of the Finance Committee, the District Auditor, and General Counsel; and

WHEREAS the Board of Directors adopted said policy in Resolution 2004-16 on June 30, 2004; and

WHEREAS said policy called for an annual review and Finance Committee and Board of Directors conducted the annual review; and

WHEREAS the Board of Directors adopted and amended policies in Resolutions 2005-16, 2006-10, 2007-11, 2008-22, 2009-14, 2010-12, 2011-14, 2012-13, 2013-14, and 2014-08; and

WHEREAS the Finance Committee has conducted the annual review for fiscal year 2015 and made recommendations to amend the policy as summarized in Exhibit A.

BE IT RESOLVED by the Board of Directors of the San Benito County Water District that the Policy Regarding Restriction and Designation of Net Assets attached as Exhibit B and included herein by reference is approved.

PASSED AND ADOPTED by the San Benito County Water District Board of Directors at the regular meeting of said board held on the 24th day of June, 2015, at Hollister, California, by the following vote:

AYES: DIRECTORS: Tonascia, Flores, Tobias, Bettencourt & Huenemann
NOES: DIRECTORS: None
ABSENT: DIRECTORS: None
ABSTAIN: DIRECTORS: None



Joseph A. Tonascia
President

ATTEST:



Sara Singleton
Assistant Manager

Exhibit A

The Policy Regarding Restrictions and Designation of Net Assets/Cash is amended from the policy documented in Resolution 2014-08 in the following ways:

- The *Purpose, Policy and Procedures* sections (Exhibit B) remain unchanged.
- Table #1 Restricted/Net Assets/Cash is amended to add a restricted reserve for the Recycled Water Project.
- Table #2 Designated/Net Assets/Cash remains unchanged.

Exhibit B

PURPOSE:

Adequate reserved funds (net assets/cash) are a necessary component of the District's overall financial management plan and required to meet various externally imposed constraints.

Funds are reserved to meet specific future financial obligations and to mitigate natural, economic, political and regulatory risks. This policy is intended to document the business practices of the District accurately reflect the nature, purpose and management of restricted and designated net assets and accurately reflect the financial condition of the District to its constituents, creditors, financial institutions, regulatory agencies, State and Federal agencies and the general public.

POLICY:

Restricted Net Assets/Cash

In accordance with GASB Statement 34 and FASB Statement 71, net assets are restricted when constraints placed on their use are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments. They are also restricted if their use is constrained by law through constitutional provisions or enabling legislation. Restricted Net Assets/Cash, the source of Restriction, the purpose of the Restriction, the method of determining the amount of Restriction and the treatment of interest are shown on Table I.

Designated Nets Assets/Cash

In accordance with GASB Statement 34, designations of net assets represent management's intended use of resources and should reflect plans approved by the government's senior management. Designations reflect a government's self-imposed limitations on the use of otherwise available current financial resources. Designated Net Assets/Cash, the purpose of the Designation, the method of determining the amount of the Designation and the treatment of interest are shown on Table 2.

Exhibit B

PROCEDURE:

- Restrictions are to be reviewed by the Finance Committee annually including but not limited to a review of statutory and regulatory changes impacting or creating Restriction of District Net Assets/Cash together with any new or pending constraints resulting from business relationships with creditors, grantors or contributors.
- For any new or amended contract or other business relationship or action that creates or changes a restriction of Net Assets/Cash, the nature and amount of that restriction or change in restriction shall be specifically and fully detailed in the documents supporting action by the Board and only the Board shall have the authority to take or approve any action which has the effect of creating or changing such restriction(s) of Net Assets/Cash.
- Designations are to be reviewed by the Finance Committee annually and any changes approved by the Board on or before June 30 each year.
- Adding a designation category requires specific approval of the Board. This action will include: 1) the purpose of the designation, 2) the dollar amount of the designation, 3) the method for calculating any annual adjustment(s), if the dollar amount is to change each year, and 4) whether or not the interest accrued on the designated amount is to be added to the designation at the end of each fiscal year.
- Removing a designation category requires specific approval of the Board.
- Changing the method for calculating the annual adjustment(s) of the designation requires approval of the Board.
- The actual dollar amounts of the designation shall be calculated based on the defined method, and adjusted at year-end for financial reporting purposes.
- Designated net assets will be segregated in separate financial accounts.
- An identical amount of cash will be designated for annual financial reporting purposes in order to reflect management's intention to fund the commitment of designated net assets. Designated cash will not be segregated from undesignated cash either in bank/investment accounts or in financial accounts except when that cash is separately invested in a manner specifically approved by the Board.
- The District Manager shall have full authority and responsibility to carry out actions of this policy.

RESTRICTED NET ASSETS/CASH

Name of Restricted Net Asset/Cash	Source Of Restriction	Purpose	Method for Calculating Amount of Restriction	Treatment of Accrued Interest
District Revolving Fund	San Benito County Water Conservation and Flood Control District Act (Section 70-7.1(a))	To provide funds which may be used for emergencies and to pay costs necessary for the establishment of a zone within the District.	Amount specified in the District Act.	Interest accrued as specified in the District Act.
San Felipe-Hollister Conduit Reserve	USBR Contract Central Valley Project-Contract Between the United States and the San Benito County Water Conservation and Flood Control District for Water Service and for Operation and maintenance of Certain Works of the San Felipe Division (Contract #8-07-20-W0130)	To meet unforeseen extraordinary costs and emergencies.	Amount specified in the Contract.	As specified in contract.
San Felipe-Reach 1 Reserve	USBR San Felipe Division-Contract for the Transfer of the Operation and Maintenance of Certain San Felipe Division Facilities (Contract # 6-07-20-X0290): United States, Santa Clara Valley Water District, and San Benito County Water Conservation and Flood	To meet operations and maintenance costs incurred during period of special stress and extraordinary repair or replacement costs associate with Reach 1.	Amount specified in the Contract	As specified in contract.

RESTRICTED NET ASSETS/CASH

Name of Restricted Net Asset/Cash	Source Of Restriction	Purpose	Method for Calculating Amount of Restriction	Treatment of Accrued Interest
<p>USBR Contract Repayment and Rate Management Reserve</p>	<p>Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities.</p>	<p>Funds to pay for San Felipe Division costs, including existing foreseeable and unforeseeable costs that may result from catastrophic failure of San Felipe Division facilities. Funds from this restricted reserve are to be used for USBR Amendatory Contract Repayment. This USBR Contract Repayment and Rate Management Reserve is intended to provide funds to make interest and principal payments on the Amendatory contract in an effort to minimize the impact of the repayment schedule on water rates and taxes.</p>	<p>At each fiscal year end, the amount added to the reserve would be the annual allocation from the land tax, interest accrued on the restricted reserve, and the amount associated with the interest component in M&I water rates. Withdrawals may be made for the USBR principal and interest payments required during the fiscal year as outlined in Exhibit D of the Amendatory contract NO. 8-07-20-W0130A. The annual allocation for the Zone 6 land tax (established at fiscal year end 2007) is \$1,800,000 and is subject to annual review by the Board. For fiscal year end 2013, the reserve balance will be adjusted to the target minimum of one and one half years of USBR Amendatory Contract payments and the remaining balance will be transferred to the Designation for Hollister Urban Area Water Treatment Plants. The Capital Recovery components (principal and interest) as identified in the Water Supply and Treatment Agreement will be added to the reserve each year in relative proportion to the reserves funding of the project costs.</p>	<p>Added to the Restricted Reserve to meet future obligations associated with San Felipe Division costs.</p>

RESTRICTED NET ASSETS/CASH

Name of Restricted Net Asset/Cash	Source Of Restriction	Purpose	Method for Calculating Amount of Restriction	Treatment of Accrued Interest
Reach 1 Major Repair and Replacement Reserve	Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities.	To provide funds for major repair and replacement associated with Reach 1.	Initial balance to be transferred from the fiscal year end 2006 balance of the designation USBR Contract Renewal. Review amount of restriction annually to be in compliance with Section 4(a) of the Agreement Between Santa Clara Valley Water District and San Benito County Water District for Repayment and Management of San Felipe Division Facilities. When funds are used from this reserve to pay for Reach 1 Major repair and replacement, they will be replenished from the operating budget in future years to build back to the target balance. The annual amount charged to the operating budget will be equal to the project cost divided by the assigned life of the facility. Replenishment will also include a 3% inflation factor. Target minimum established at \$500,000.	Accrued interest is to be added to the Restricted Reserve until such time that the minimum aggregate amount is achieved. Once the minimum aggregate amount is achieved, the interest will be added to the undesignated cash of the District.
Reserved for Hollister Urban Area Water Treatment Facilities	Hollister Urban Area Water Supply and Treatment Agreement: Article 5.1.	To provide capital for design, permitting and construction of water treatment facilities and pipelines associated with the Hollister Urban Area Water Treatment Plants	Board reviews and determines funding level annually. For fiscal year end 2013, \$18,618,443 was transferred from the USBR Contract Repayment and Rate Management Reserve to fund the initial balance. At fiscal year end 2014, \$11,381,557 was transferred from undesignated.	No interest accrual.

RESTRICTED NET ASSETS/CASH

Name of Restricted Net Asset/Cash	Source Of Restriction	Purpose	Method for Calculating Amount of Restriction	Treatment of Accrued Interest
Reserved for Water Treatment Plants-Asset Replacement Reserve	Hollister Urban Area Water Supply and Treatment Agreement: Article 6.3(a)(4)	To provide funds for capital replacement of assets of the Water Supply and Treatment Program, and funds so expended will be replaced through subsequent contributions.	Until completion of the Lessalt upgrade, the amount added to the restricted reserve will continue at the amount of annual depreciation already in place on the existing plant (approximately \$190,000). At the completion of the Lessalt upgrade, and then again at the completion of the West Hills plant, the District will reassess the depreciation schedules for the upgraded and the new plant, and establish an amount to add to the designation each year that is consistent with the current District policy regarding Capital Asset Replacement reserve.	Interest will accrue. Interest accrued on restricted balance is added to the restriction each fiscal year-end. Average LAIF interest rate is applied to the amount of restriction during that fiscal year.
Reserved for Recycled Water Project	San Benito County Water District and California State Water Resources Control Board Loan and Grant Agreement. Loan Project No. WRFP 3321-110 (Exhibit D)	To comply with loan agreement provision to provide one year's debt service to be maintained for the full term of the Finance Agreement.	Reserve to be funded at the award of the Recycled Water Project construction contract and to be maintained at an amount equal to one year's debt service (approximately \$46,000) for the full term of the financing agreement.	No interest accrual.

Fiscal Year 2015

Table #2

DESIGNATED NET ASSETS/CASH

Name of Designated Net Asset/Cash	Purpose	Method for Calculating Amount of Designation	Treatment of Accrued Interest
Reserved for Operations	The reserves designated for operating contingencies are established to provide for unforeseen needs, revenue shortfalls, and emergency appropriations during the year.	At fiscal year end, one half of an average of the most recent 3 years' annual operating expense (excluding depreciation, amortization and operating expense associated with the Hollister Urban Area water treatment plants) is designated for the following year.	No interest accrual.
Reserved for Capital Improvements	Established by board action(s) to fund future capital improvement projects. The purpose of this designation is to accumulate funds for specific projects or utility purpose to provide all or a portion of the cost.	These designations are for specific new capital improvement projects. The board decides how much to fund and for which projects. Funding level is reviewed annually. Any use of funds is replenished from the operating budget on an amortized basis over the assigned life of the project. Use of funds from this reserve for preliminary survey and investigation, will be replenished from the operating budget on an amortized basis over 5 years.	No interest accrual.
Reserved for Self-Insurance	Established by board policy to fund the contingent liability for the District's self-insured portion of vehicle coverage.	Adequacy of funding level will be reviewed annually.	No interest accrual.

Fiscal Year 2015

Table #2

DESIGNATED NET ASSETS/CASH

Name of Designated Net Asset/Cash	Purpose	Method for Calculating Amount of Designation	Treatment of Accrued Interest
Reserved for Capital Asset Replacement	This designation is to accrue funding for asset purchase and replacement in the period of use. Through this funding reservation, monies are set aside for planned future asset expenditures within specified categories. In addition, this reserve provides a funding source for unanticipated asset needs, mitigates the impact of large budget expenditures, and assists with asset management and long range planning.	The designation will be increased by the amount of the annual depreciation expense for each asset multiplied by a factor for each asset group based on their assigned life. Assets with assigned lives of 1-15 years are reserved at 100% of their annual depreciation expense. Assets with assigned lives of 16 to 49 years are reserved at 50% of their annual depreciation expense. Assets with assigned lives of 50+ years and land are not reserved for.	Interest will accrue. Interest accrued on designated balance is added to the designation at fiscal year end. Average LAIF interest rate is applied to the amount of designation during that fiscal year.
Reserved for Retiree Medical	To provide for retiree future medical payments.	Reviewed annually to comply with recommendations in most current actuarial study for GASB 45.	No interest accrual.
Water Supply Revolving Reserve	To provide additional source of funds for Zone 6 water supply augmentation through local or imported water purchases.	Amount of administrative fee from water sales/transfers and/or funding from operations. Funding level is reviewed annually. Use of funds will be replenished from the operating budget over 5 years on an amortized basis.	No interest accrual