

Tab 6

Metropolitan Water District of Salt Lake & Sandy
Board Meeting Information
Last Update: February 9, 2024

Agenda Item: Consider approval of changes to Policies and Procedures Chapter 3, Fiscal and Budget

Objective: Approval of changes to the Policies and Procedures Chapter 3, Fiscal and Budget

Background: Section 3-612 of the Fiscal and Budget section of the Policies and Procedures discusses certain reserve balances. In a review of the Capital Improvement Program (CIP) financial analysis, the Finance Committee considered changes to two reserve policy requirements. Specifically, the committee discussed changes to the Capital Projects Reserve and the Interest Rate Stabilization Reserve.

The Capital Project Reserve requires a minimum balance of 15% to 25% of the following 5 years' annual capital expenses at any given time. Using the current goal of 20% would require \$50M to \$72M be placed in the reserve. Achieving these reserve amounts requires an increase in water sales revenue over 100% in FY2025 and 40% to 50% each year thereafter for the following 12 years. Staff feel this was not the intent of Capital Projects Reserve fund and recommend the following update for consideration:

Amend the Capital Projects Reserve policy to read: “...*The goal of the District shall be to maintain a minimum balance of 15% to 25% of the total of the following five years' annual capital expenses, **not to exceed \$10,000,000**, at any given time.*”

The Interest Rate Stabilization Reserve has a balance of \$3,284,866, and was primarily established in response to the variable rate bonds procured for the Metro Water Project. These bonds have been re-financed for fixed rate bonds. It is recommended this reserve be discontinued and the balance would flow to unassigned reserves.

The proposed redline changes to Section 3-612 of the District's P&P are attached.

Committee Activity: The Finance Committee met on February 5, 2024 to review the proposed changes. The committee recommend approval by the full board.

Recommendation: Approval of changes to the Policies and Procedures Chapter 3, Fiscal and Budget, Section 3-612.

- 1) The District financial records shall be kept under an enterprise fund structure. The District shall maintain appropriate account groups consistent with the Uniform Accounting Manual for Local Districts.

3-612 RESERVE COMMITMENTS AND GOALS

- 1) Certain reserve balances are required by agreement and/or the District's Master Bond Resolution, District Resolution Number 1739, adopted April 29, 2002 (the "Master Bond Resolution"). Other reserve balances are subject to change at the discretion of the Board. To the extent the District has discretion, the Finance Committee shall, consistent with Utah Code Ann. §§ 17B-1-612 and 613, make recommendations to the Board regarding the application and/or disposition of reserve balances in excess of the goals described here.
- 2) Operations & Maintenance Reserve. Section 5.05 of the Master Bond Resolution requires the District to maintain a minimum balance in the Operations and Maintenance Reserve Fund of 3 months operation and maintenance costs based upon the current annual budget. The target balance shall be set by the Board as a part of the annual budget process and shall be stated along with the current Operations & Maintenance Reserve balance in the periodic financial reporting of the District.
- 3) Capital Projects Reserve. Section 5.09 of the Master Bond Resolution requires that the amount of \$650,000 be maintained in the Renewal and Replacement Reserve Fund to meet extraordinary operations and maintenance costs as well as unusual loss or damage. Section 5.09 of the Master Bond Resolution allows this amount to be altered by future supplemental resolutions. In addition to these funds, money will be held for additional construction costs not defined in the Renewal and Replacement Reserve Fund relating to capital cost overruns, additional costs related to project timings, unbudgeted capital projects, and other contingencies. The Capital Projects Reserve, which shall include the Renewal and Replacement Reserve Fund and all other capital project reserves, shall be directly proportionate to the annual construction costs to be undertaken in the following 3 to 5 years. The goal of the District shall be to maintain a minimum balance of 15% to 25% of the total of the following 5 years' annual capital expenses, not to exceed \$10,000,000, at any given time. It is not intended that the Capital Projects Reserves duplicate any contingencies or reserves which are a part of any financing.
- 4) Self-Insurance/Contingency Reserves. The Self-Insurance/Contingency Reserve is intended to cover expenditures required to pay insurance deductibles and self-insured retentions, offset delays in insurance payments, protect against losses in excess of insurance limits, protect against exclusions in insurance coverage, and protect against denials of insurance coverage, all resulting from any unforeseen losses, claims or legal actions. The goal of the District is to maintain an unrestricted Self-Insurance/Contingency Reserve balance at a level that will provide funds to protect the District against such unforeseen costs not covered by any other reserves. The District's goal is to accumulate funds in the Self-Insured/Contingency Reserve up to \$2,000,000. This goal shall be reviewed annually. The Self-Insured/Contingency Reserve should not include deductibles and self-insured retentions which are expected to be

paid during the budget year, special liability reserves set by the Board to address particular events, capital trust account funds, bond funds, or general trust accounts.

- 5) Reserves Named by Agreement. The District has entered, and may in the future, enter into agreements that require the District to maintain agreement-specific reserves. Examples include:
- a) Jordan Aqueduct Repayment Contract. Article 10 of the “Contract Among the United States, Central Utah Water Conservancy District and Metropolitan Water District of Salt Lake City Providing for Partial Repayment of the Jordan Aqueduct of the Bonneville Unit,” dated May 16, 1986, as amended by the “Contract Among the United States, Central Utah Water Conservancy District and Metropolitan Water District of Salt Lake City Providing for Partial Repayment of the Jordan Aqueduct of the Bonneville Unit,” dated October 28, 1993 (the “Jordan Aqueduct Repayment Contract”) requires the District to maintain an operating reserve of \$20,000 in an interest bearing federally insured account. The District is required to replenish the reserve in the amount of \$4,000 annually to the extent necessary to bring the reserve back up to \$20,000. This amount can be altered by written agreement between the District and the United States Secretary of the Interior.
 - b) JVWTP O&M Agreement. Article 17 of the “Operation and Maintenance Agreement for the Jordan Valley Water Treatment Plant and Terminal Reservoir” among Central Utah Water Conservancy District, Jordan Valley Water Conservancy District and this District, dated April, 1993, requires the District to maintain a reserve account of \$20,000.
 - c) 150th South Pipeline Agreement. Article VI.2.(a) of the 150th South Pipeline Agreement between the District and Jordan Valley Water Conservancy District requires each party to contribute \$6,000.00 annually to a federally insured, interest bearing account as a reserve for Extraordinary Operation, Maintenance, Repair and Replacement Costs as defined by that agreement until \$30,000.00 is accumulated in the account. As funds are withdrawn from that account annual deposits of \$6,000.00 must resume until the account balance is again \$30,000.00.

~~—Interest Rate Stabilization Reserve. The Board’s goal is to create and accumulate monies in an interest rate stabilization reserve as a means of mitigating interest rate risk. The District’s financial advisor and/or bond counsel should be consulted to minimize arbitrage rebate.~~

~~7)6) Aquifer Storage and Recovery (“ASR”) Reserve. The Board’s goal is to create and accumulate monies in an ASR reserve as a means of creating a resource for implementation of ASR projects. The source of monies for this reserve would be generated by electrical pumping costs savings at the Jordan Narrows and sale of surplus water supplies.~~