

## **RESOLUTION NO. 14**

### **RESOLUTION OF THE BOARD OF DIRECTORS OF THE MONTECITO GROUNDWATER BASIN GROUNDWATER SUSTAINABILITY AGENCY ADOPTING A RESERVE POLICY FOR FISCAL YEAR 2025**

**WHEREAS**, the Montecito Groundwater Basin Groundwater Sustainability Agency (“Agency”) is organized and existing under and pursuant to the Sustainable Groundwater Management Act (“SGMA”) and was declared by the California Department of Water Resources (“DWR”) as the exclusive Groundwater Sustainability Agency for the Montecito Groundwater Basin (“Basin”) in late 2018; and

**WHEREAS**, the mission of the Agency is to ensure a reliable and sustainable groundwater supply for the community through effective basin management pursuant to the SGMA; and

**WHEREAS**, pursuant to SGMA, the Agency developed a Groundwater Sustainability Plan (“GSP”) for the Basin [Water Code §10727]; and

**WHEREAS**, on May 19, 2023, following a public review and hearing process, the Agency Board of Directors adopted a GSP for the Basin and subsequently submitted it to DWR for review [Water Code §10727.8]; and

**WHEREAS**, the GSP supports the Agency’s Sustainability Goal to prevent undesirable results and optimize long-term use of the groundwater basin for the benefit of all stakeholders [Water Code §10727.2 and Water Code §10727.4]; and

**WHEREAS**, the SGMA grants the Agency express and implied powers to carry out its mission and perform all acts necessary to carry out its mission [Water Code §§10725 – 10726.9]; and

**WHEREAS**, in June 2020, the Agency established groundwater basin fees to fairly and reasonably recover its operating, administrative and regulatory costs from properties that overlie and benefit from the Basin. The groundwater basin fees were determined in the *GSA Fee Study, prepared by Raftelis and dated May 6, 2020*, which incorporated a 5-year financial plan projecting revenue requirements, annual capital outlay and a cash reserve target; and

**WHEREAS**, the Agency has determined a need to establish a reserve policy and update its cash reserve target to be consistent with its current financial position, will which assist the Agency in accomplishing its mission, and fulfilling the requirements of the SGMA;

**WHEREAS**, the Bylaws of the Agency authorize the adoption of a financial reserve policy for the Agency; and

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of Montecito Groundwater Basin Groundwater Sustainability Agency hereby adopts a "Reserve Policy" for Fiscal Year 2025 that is attached to this Resolution as Exhibit "A" and incorporated herein by this reference.

**PASSED AND ADOPTED** by the Board of Directors of the Montecito Groundwater Basin Groundwater Sustainability Agency this 14<sup>th</sup> of May 2024 by the following roll call vote:

AYES: Coates, Goebel, Hayman, Plough, Wicks

NOES:

ABSENT:

ABSTAIN:

APPROVED:

  
Brian Goebel, Board President

ATTEST:



Nicholas Turner, Secretary

Exhibit "A"  
To Resolution No. 14

# MONTECITO GROUNDWATER BASIN GROUNDWATER SUSTAINABILITY AGENCY

## RESERVE POLICY FOR FISCAL YEAR 2025

Adopted by the  
Board of Directors  
May 14, 2024

# Montecito Groundwater Basin Groundwater Sustainability Agency

## RESERVE POLICY FOR FISCAL YEAR 2025

### STATEMENT OF RESERVE POLICY

The mission of Montecito Groundwater Basin Groundwater Sustainability Agency (Agency) is to ensure a reliable and sustainable groundwater supply for the community through effective basin management pursuant to the Sustainable Groundwater Management Act (SGMA). In addition, the Agency's sustainability goal is to prevent undesirable results and optimize long-term use of the Montecito Groundwater Basin (Basin) for the benefit of all stakeholders. The sustainability goal will be achieved through a collaborative, knowledge-based process informed by locally defined quantitative criteria, ongoing monitoring and modeling, and incremental, data-supported management actions as needed to prevent seawater intrusion and ensure sustainable groundwater levels, storage, and quality. Reserve amounts delineated in this policy reflect the Agency's projected financial position for the Fiscal Year beginning July 1, 2024 (FY 2025) and will be updated annually or as appropriate.

### POLICY STATEMENT

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. The Agency desires to identify, and provide a methodology to maintain, an appropriate level of reserve funds to meet the necessary existing and future needs of the Agency. The Agency's Board of Directors (Board) recognizes the importance of adequate reserves to ensure effective basin management, funding unanticipated or unplanned projects, and responding to emergencies should they arise. The Agency will at all times strive to meet these needs by having sufficient funding available to mitigate and smooth cashflow fluctuations.

The Board may designate specific reserve funds and/or maintain minimum reserve balances consistent with statutory obligations that it has determined to be in the best interest of the Agency. The Policy directives outlined in this document are intended to ensure that the Agency has sufficient cashflow to meet current and future needs. A Determination to continue existing reserve funds, or establish new reserve funds, are based on the following criteria:

- ♦ Purpose of the reserve.
- ♦ Availability and source of funds to continue, replenish or establish the reserve.
- ♦ Operating expenditure levels approved within the annual budget process.
- ♦ Future capital expenditures and debt service requirements, if any.

The Agency recognizes the importance of operating with a sound business plan that provides for unanticipated, or emergency, costs should they arise within a budgeted fiscal year.

It is the Board's intent through this Reserve Policy to describe each fund type and reserve, and to provide the Agency's stakeholders with assurance that reserve balances will be maintained at prudent and fiscally responsible levels.

## **GENERAL PROVISIONS**

The Agency will maintain its operating and capital funds in designated accounts in a manner that ensures its financial soundness and provides transparency to its stakeholders. The fund balances are considered the minimum necessary to maintain the Agency's fiscal strength and flexibility and to adequately provide for:

- ♦ Compliance with applicable statutory requirements.
- ♦ Funding unanticipated or unplanned capital projects.
- ♦ Cash flow requirements.
- ♦ Economic uncertainties and other financial hardships or downturns in the economy.

Through a variety of policy documents including the Groundwater Sustainability Plan (GSP), the Board has set forth long-term goals for the Agency. The Board will continually evaluate the implementation of these policy documents, including but not limited to, the GSP to ascertain adequate reserve fund balances are meeting the goals outlined in this Reserve Policy.

The Agency has established and will maintain the reserve funds outlined in the following section. A principal tenet of the Agency's Reserve Policy shall be the generation of interest income on accumulated cash balances. Unless otherwise stated in this Reserve Policy, interest derived from reserve balances will be considered unrestricted and unassigned in nature. Reserve balances will be reviewed by the Business Manager monthly, as well as annually during the budget review process, in order to determine how reserve fund balances compare with budgeted projections and how they measure against the goals outlined in this Policy. The minimum established for the reserve fund represents the baseline financial condition that is acceptable to the Agency from risk and long-range financial planning perspectives. Maintaining reserve funds at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various funding alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to rates, loans and grants, debt financing, investment of funds, and levels of capital expenditures.

The Board shall approve any changes made to the reserve funds described below.

## **SPECIFIC PROVISIONS**

The Agency will maintain the following fund types and respective target levels:

### **1. Restricted Funds**

The Agency has no Restricted Funds.

## **2. Unrestricted Funds**

These funds have no externally imposed use restrictions. The use of Unrestricted Funds is at the discretion of the Board. Unrestricted Funds may be designated for a specific purpose, which would be determined by the Board. The Board also has the authority to redirect the use of these funds as the Agency's needs change.

The Unrestricted funds can further be subdivided into "Committed", "Assigned" and "Unassigned" funds. Committed funds refer to the fund balance amounts that have constraints imposed by formal action of the Board. Once adopted, the limitation imposed remains in effect until additional action is taken to remove or reverse the limitation. Assigned funds refer to fund balance amounts that are constrained by the Board's intent to use the funds for a specific purpose but are neither restricted nor committed. Unassigned funds refer to fund balances that are not restricted, committed, or assigned.

### **a) Board Committed Funds**

The Agency's Board Committed Funds consist of a **Stabilization Fund**. The Stabilization Fund is comprised of cash reserves that can mitigate the impacts of operational, debt service and capital expenditure fluctuations. Reserves can be transferred out of the stabilization fund and used to help meet operational and capital expenditure needs and/or debt service coverage requirements, if any. Stabilization Fund reserves can help smooth cashflow variability and ensure adequate fiscal resources during periods of limited or no revenue.

The Board desires a minimum Stabilization Fund balance target of \$500,000. This reserve is designated by the Board to maintain working capital by smoothing cash flow fluctuations and is based on an amount sufficient to pay for approximately 180 days of normal operations of the Agency.

All retained earnings not allocated to other funds may be placed in the Stabilization Fund. Funds appropriated to the Stabilization Fund may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Unrestricted Fund balance.

### **b) Board Assigned Funds**

The Agency has no Board Assigned Funds.

### **c) Board Unassigned Funds**

All retained earnings not allocated to any other fund, i.e. Stabilization Fund, are to be designated as Board Unassigned Funds.

## **3. Additional Reserves**

In addition to the reserves identified above, the Board may approve the creation of such additional reserve accounts and/or funds, whether temporary or permanent, as the Board deems necessary or appropriate, by amendment to this Reserve Policy. In such event, the Board will identify the purposes for which such additional reserve accounts and/or funds are created, provide guidance as to the amount which the Agency should endeavor to maintain in each such reserve accounts and/or funds, and establish the limits and restrictions pertaining thereto.

### **ANNUAL REPORTS**

Each year the Agency's General Manager or Business Manager shall provide the Board of Directors with a report indicating the beginning and ending balance for each reserve fund created pursuant to this policy, and the purpose(s) for which expenditures have been made therefrom and shall make recommendations to replenish or augment fund or account balances as appropriate.