

RESOLUTION NO. 15

RESOLUTION OF THE BOARD OF DIRECTORS OF THE MONTECITO GROUNDWATER BASIN GROUNDWATER SUSTAINABILITY AGENCY ADOPTING AN UPDATED 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 Bylaws of the Agency authorize the adoption of a financial reserve policy for the Agency; and

WHEREAS, on May 14, 2024, the Agency adopted Resolution No. 14, a resolution of the Board of Directors of the Agency establishing a reserve policy that updated its cash reserve target to be consistent with its current financial position, and which will assist the Agency in accomplishing its mission to fulfill the requirements of the SGMA; and

WHEREAS, the Agency has determined a need to update its Reserve Policy to provide enhanced transparency, to demonstrate continued responsible management and discipline in the appropriate use of fiscal resources, and to closely align anticipated needs and financial planning;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Montecito Groundwater Basin Groundwater Sustainability Agency hereby adopts an updated “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 5^h of November 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 Montecito GSA Resolution No. 15

**MONTECITO GROUNDWATER BASIN
GROUNDWATER SUSTAINABILITY
AGENCY**

**UPDATED
RESERVE POLICY
FOR FISCAL YEAR 2025**

Adopted by the
Board of Directors
November 5, 2024

Montecito Groundwater Basin Groundwater Sustainability Agency

UPDATED 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 target minimum reserve balances consistent with statutory obligations, if any, 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. Determinations 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, if any.
- ♦ 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 periodically 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 Board intends to fund the reserve targets with property assessment revenues.

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 Board 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

- i. **Operating Reserve.** The Operating Reserve is comprised of cash reserves that can mitigate the impacts of operations related to the sustainable management of the groundwater basin and debt service costs, if any. Reserves can be transferred out and used to help address unanticipated costs associated with operations and to meet routine cash flow needs. Operating Reserves can help smooth cashflow variability and ensure adequate fiscal resources during periods of limited or no revenue.

The Board desires a target balance 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 270 days of normal operations of the GSA.

Funds appropriated to the Operating Reserve may be invested in the same manner as other Agency funds. All amounts on deposit in other reserves which exceed any maximum amount, including amounts from retained earnings and not allocated to other funds may be placed in the Operating Reserve.

- ii. **Capital Reserve.** The Capital Reserve is comprised of cash used for the funding of new capital assets or the replacement of capital assets of the Agency when they reach the end of their useful life. The Agency may use the funds herein for either capital or planning purposes. The current balance of the Capital Reserve is \$0 and the Board is not required to fund the reserve until planned capital projects are included the Budget.

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.