

ZONE 7 BOARD OF DIRECTORS
FINANCE COMMITTEE

April 8, 2013
4:00 p.m.

Location: Board Room
 Zone 7 Administration Building
 100 North Canyons Parkway
 Livermore, CA 94551

Director Figuers
Director Machaevich
Director Ramirez Holmes

A G E N D A

1. Public Comment
2. Draft Interim Reserve Policy
3. Verbal Reports
4. Adjournment



ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7

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M E M O R A N D U M

DATE: April 8, 2013

TO: Finance Committee

FROM: Tom Hughes, Assistant General Manager

SUBJECT: Draft Interim Reserve Policy

SUMMARY/BACKGROUND:

The Zone 7 Board of Directors adopted a Reserve Policy in February 2005 that set forth the principals to be followed in creating and maintaining reasonably prudent reserves for conducting the Agency's business (Attachment A).

On November 16, 2011, the Zone 7 Board adopted a Financial Management Framework (Attachment B), which includes planning for current operating and capital resources needed to ensure it will achieve the mission of providing for the financial health and stability of the Agency. One of the Framework's primary goals is to ensure the Agency's ability to respond to changes in the economic environment and service demands with minimal impact on its customers while maintaining the financial integrity of the Agency.

DISCUSSION:

Last year the Zone 7 Board directed staff to revisit the Reserve Policy in order to delineate the procedures and constraints for which the Agency would manage reserve funds. A first draft of a revised policy was developed and staff made a public presentation on the draft policy to Director Ramirez Holmes, a member of the Finance Committee on October 9, 2012. An agenda item requesting adoption of the revised policy was prepared for the October 18, 2012 Board meeting. However, the item was continued at the request of the City of Pleasanton and Hacienda Owners Association to facilitate further discussions. Staff subsequently met with representatives from Pleasanton and Hacienda Owners Association to address their concerns.

In February 2013, staff secured the assistance of a highly regarded consulting firm, Fieldman, Rolapp & Associates, to help develop an Interim Reserve policy. A review of the current policy was commenced with a focus on the minimum and maximum limits attributed to each reserve.

This allowed a broader scale of analysis to occur which delivered a narrow set of commonly exercised best practices from among industry peers which could be adopted and utilized within Zone 7.

In mid-March, 2013 Staff provided the Retailers with an early draft of the Interim Reserve Policy and on March 27, 2013 met jointly with the financial consultant and the Retailers to discuss their comments and questions. The Retailer group provided useful comments, observations and a sense of general support for the draft Interim Reserve Policy. Several changes were made based on external and internal feedback.

The draft Interim Reserve Policy is a straight-forward, clearly laid-out, and easier to administer reserve policy document. The draft Interim Reserve Policy designates ten specific Reserves, allocated across the three major funding areas. The following is a list of those designations, which are fully described in Attachment C:

1. Water Enterprise
 - a. Operating Reserve
 - b. Emergency Reserve
 - c. Drought Contingency Reserve
 - d. Rate Stabilization
 - e. Capital Improvement, Renewal & Replacement and System –Wide Improvements Reserve
 - f. Capital Expansion Reserve
2. Flood Control
 - a. Operating Reserve
 - b. Capital Project Reserve
 - c. Capital Flood Protection and Storm Water Drainage Development Impact Fee Project Reserve
3. State Water Facilities Operating Reserve

RECOMMENDED ACTION:

Receive the presentation, discuss the draft Interim Reserve Policy and give staff direction to finalize the policy for adoption at a future Board meeting.

ATTACHMENTS:

Attachment A – Zone 7 Reserve Policy

Attachment B – Zone 7 Financial Management Framework and Board Resolution

Attachment C – Draft Interim Reserve Policy

ATTACHMENT A

ZONE 7 WATER AGENCY

RESERVE POLICY

Adopted by the Zone 7 Board on February 16, 2005

Zone 7 Water Agency Reserve Fund Policy

Policy Statement

Zone 7 of the Alameda County Flood Control and Water Conservation District has adopted a Financial Management Policy which includes planning for current operating and capital resource needs to ensure it can achieve its mission by providing for financial stability and health of the Agency. Among the stated goals is to be able to respond to changes in the economic environment and service demands with minimal impact on its customers while maintaining the financial integrity of the Agency.

Key elements of prudent financial planning include ensuring sufficient funding is available for current operating, capital and debt service costs; anticipating and preparing for future funding needs; and allowing for unforeseen disasters and other unforeseen events.

Zone 7 will maintain reserve funds to ensure it can fund emergency expenses; cash flow requirements; capital improvement plans and future operating requirements while avoiding significant rate fluctuations due to changes funding needs. It will also maintain a cash reserve position that may be utilized to fund unexpected fluctuations in revenue and operating/capital expenditures. Staff will review the amount of reserves recommended each year with the Board of Directors at the presentation of the annual Agency budget.

Definitions

- Restricted Reserves: Restrictions imposed by an outside source. May be required by bond covenants in the case of debt issuance.
- Designated Reserves: Set aside for a specific purpose determined by the Board of Directors. The Board of Directors has the authority to redirect the use of these funds as needs of the Agency change.
- Unrestricted Reserves: Have no imposed restrictions as to their use.

Designated Reserve Funds

- Emergency/Operating Reserves: Designated by the Board of Directors to provide for emergencies and cash flow requirements. The amount of these reserves is determined by the fund to which they apply. The water enterprise is maintained at 20% of operating expenses; flood control estimated at flood repair cash flow needs; and the State Water Project at 50% of revenue.
- Rate Stabilization: Designated by the Board of Directors to provide funds in the case of an unforeseen event such as a natural disaster, water shortage or other catastrophic event. Use of these funds is approved by the Board of Directors.
- Designated Reserve: Designated by the Board of Directors to provide for increases in operating expenses in excess of the target established by the Board. The Board authorizes use of these funds.

- Capital Projects and Contingencies Reserve: These reserves are earmarked by the Board of Directors for capital improvements to meet regulatory requirements, system reliability and future demand. These capital improvements are included in the 10 year Capital Improvement Program and the Asset Management Program both of which are reviewed by the Board of Directors each fiscal year. These reserves are also used to fund unanticipated capital projects. Use of these funds is approved by the Board of Directors.

ATTACHMENT B

ZONE 7 WATER AGENCY

FINANCIAL MANAGEMENT FRAMEWORK

Adopted by the Zone 7 Board on November 16, 2011

Financial Management Framework

1. Purpose

To direct staff to prudently manage Zone 7's funds and to maintain financial and accounting records of all transactions in accordance with generally accepted accounting principles.

To adequately plan for the funding of current and future operational requirements and capital resources necessary to achieve the Agency's mission.

To provide staff with a framework to develop policies and procedures to ensure Zone 7's mission by providing financial health and stability to the Agency.

To direct staff that the assessment, levy and collection of taxes, the adoption of the Agency budget, and the appropriation, accounting, and transfer of funds shall be governed by general law and in accordance with generally accepted accounting principles and practices.

2. Administration of the system

In keeping with Resolution No. 09-3266, which states that "The Agency's General Manager has full charge and control of the day-to-day management, operation and administration of the Agency," the General Manager shall retain primary jurisdiction, responsibility, and authority for all matters pertaining to the day-to-day financial management of the Agency. To direct, control, supervise, and manage the development, preparation, organization, administration, operation, implementation, and maintenance of a comprehensive financial management program for Zone 7 Water Agency, the General Manager shall be designated as the fiscal officer of the Agency.

The General Manager may delegate any of the powers and duties conferred upon him or her as fiscal officer to any other employee of the Agency or may recommend that such powers and duties or any part of them be performed under contract.

3. Security of the system

The General Manager shall cause an audit of the financial transactions and records of the Agency to be made at least annually by a third party certified public accountant (i.e., one not employed by the Agency). As soon as possible at the end of each fiscal year a final audit and report shall be completed and submitted to the Board of Directors. Copies shall be placed on file in the office of the General Manager and be available for public inspection.

The General Manager shall also prepare such additional reports as the Board of Directors may from time to time request for information and use in setting financial policies for the Agency.

ZONE 7
ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT
BOARD OF DIRECTORS

RESOLUTION NO 11- 4137

INTRODUCED BY DIRECTOR QUIGLEY
SECONDED BY DIRECTOR GRECI

WHEREAS, Zone 7 Water Agency is pursuing separation from Alameda County and as one sequential step in the separation, an agency financial management framework should be developed to provide direction to Zone 7 in managing its finances.

WHEREAS, the purpose for the financial management framework is to direct Zone 7 staff to prudently manage the Agency's funds and to maintain financial and accounting records of all transactions in accordance with generally accepted accounting principles and practices.

NOW THEREFORE BE IT RESOLVED that this financial management framework directs the General Manager to retain primary jurisdiction, responsibility, and authority for all matters pertaining to the day-to-day financial management of the Agency.

BE IT FURTHER RESOLVED that the Board of Directors of Zone 7 of Alameda County Flood Control and Water Conservation District does hereby adopt the attached Financial Management Framework.

ADOPTED BY THE FOLLOWING VOTE:

AYES: DIRECTORS FIGUERS, GRECI, MACHAEVICH, MOORE, PALMER, QUIGLEY

NOES: NONE

ABSENT: DIRECTOR STEVENS

ABSTAIN: NONE

I certify that the foregoing is a correct copy of a Resolution adopted by the Board of Directors of Zone 7 of the Alameda County Flood Control and Water Conservation District on

November 16, 2011

By

S. Figuer
President, Board of Directors

ATTACHMENT C
ZONE 7 WATER AGENCY
INTERIM RESERVE
POLICY

APRIL 2013

ZONE 7 WATER AGENCY INTERIM RESERVE POLICY

1. Policy Statement

As a part of its mission to provide a reliable supply of high-quality water and effective flood control in a fiscally-responsible way, the Agency is in the process of developing a comprehensive financial plan that will provide a strategy for the timely and cost-effective funding of operations, the capital improvement program and long term financial stability. In conjunction with the development of the aforementioned financial plan, this Interim Reserve Policy, including the methodology for establishing minimum and maximum levels, will be reviewed and re-evaluated to ensure the Agency's financial and fiscal soundness.

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. Zone 7 Water Agency ("Zone 7", or the "Agency") will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Reserve Funds ("Funds") will be accumulated, designated and maintained to allow Zone 7 to fund operating expenses and capital expenditures in a manner consistent with its budget and capital improvement plan, respectively, and avoid significant customer rate fluctuations due to changes in cash flow requirements. Further Zone 7 will endeavor to designate funds for all forms of potential disasters, emergencies and unforeseen events to ensure that funds are available to cover the costs associated therewith.

The Zone 7 Board of Directors (the "Board") adopted a Financial Management Framework (the "Framework") on November 16, 2011 (Resolution Number 4137) which includes planning for current operating and capital resource needs to ensure it can achieve its mission by providing for financial stability and health of the Agency. This Interim Reserve Policy has been developed in keeping with the Framework. One of the Framework's goals is to be able to respond to changes in the economic environment and service demands with minimal impact on its customers while maintaining the financial integrity of Zone 7. A fundamental purpose of this policy is to link what must be accomplished with the necessary resources to successfully do so.

The Policy directives outlined in this document are intended to ensure Zone 7 has sufficient funds to meet current and future needs. The Board shall designate specific funds and maintain minimum fund balances consistent with definitions and funding levels outlined in the Policy. The Board will annually review the level of Funds. For the purposes of compliance with this Policy, Zone 7 may use the amounts on deposit in each of the funds as of the final day of each fiscal year for such calculation.

2. **Definitions**

- **Restricted Reserves:** Restrictions imposed by an outside source. May be required by bond covenants in the case of debt issuance or by California's Mitigation Fee Act in the case of water connection fees or flood control's developer impact fees
- **Designated Reserves:** Set aside for a specific purpose determined by Zone 7's Board of Directors. The Board of Directors has the authority to redirect the use of these funds as needs of the Agency change.
- **Unrestricted Reserves:** Have no imposed restrictions as to their use.

3. **General Provisions**

Zone 7 will maintain its funds in separate accounts in a clearly identifiable manner that provides transparency to its ratepayers. This Policy establishes Reserve Funds for each of the following major funding areas.

- Water Enterprise
- Flood Control
- State Water Project

The minimum fund balances are established to:

- Comply with applicable statutory requirements
- Finance future capital facilities, finance improvements, and repair and replacement of existing assets
- Assure cash flow requirements are met
- Provide for economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Provide for contingencies, emergencies or unforeseen operating or capital needs

To ensure reliable service to its ratepayers and maintain fiscal responsibility, in every fiscal year Zone 7 will maintain balances in its Reserve Funds that are financially prudent.

Segregation of Funds

The Agency will not transfer moneys between reserve funds that are established under different functions of the Agency. The Agency may complete interfund borrowing between reserves of different functions of the Agency. The Board shall approve any reallocation of funds or any transfers among Reserve Funds.

4. **Fund Target Levels and Policy Compliance Management**

Upon Board adoption of this policy, Zone 7 staff will take necessary actions to comply with this policy.

Fund balances will be reviewed on an annual basis at the end of the fiscal year based on unaudited/audited actuals to ensure compliance with this Policy

The minimum established for each Fund represents the target that is acceptable to Zone 7 from risk and long-range financial planning perspectives. Maintaining fund balances at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various revenue generating alternatives. These revenue-generating alternatives (either alone or in combination with each other) include, but are not limited to:

- fees and charges,
- energy usage,
- capital financing,
- investment of funds, and
- levels of capital expenditures.

I. WATER ENTERPRISE OPERATING RESERVE

The amounts in the Water Enterprise Operating Reserve should fluctuate depending on the annual operating expenses of Zone 7. The Water Enterprise Operating Reserve Fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs. Money on deposit in this fund may be used for unanticipated operating expenses, daily cash flow requirements and emergencies.

Minimum and Maximum Levels – Funding shall be targeted at a minimum amount equal to thirty-two (32) days of the Agency’s budgeted total operating expenses, and the maximum amount shall not exceed ninety (90) days of the total budgeted operating expenses. Zone 7 will strive to maintain a target balance amount between thirty-two (32) and ninety (90) days of the Agency’s budgeted total operating expenses.

Events or Conditions Prompting the Use of the Fund – This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses and extraordinary decreases in revenues and unexpected increases in expenses.

Periodic Review Dates for Balances – Fund balances and target levels will be reviewed by staff, the Board and the public during the development and approval of each budget.

II. WATER ENTERPRISE EMERGENCY RESERVE

Funds in the Water Enterprise Emergency Reserve can be used for any operating or capital purpose (i) to begin repair of the water enterprise system after a catastrophic event, such as, but not limited to, an earthquake, fire, terrorist event, or storm while insurance claims are being processed or (ii) in the event of severe financial events that impact the financial soundness of Zone 7.

Minimum and Maximum Levels – Funding shall be targeted at a minimum equal to 1% of the capital assets of the Agency’s water enterprise system and a maximum of 3% of the capital assets of the enterprise system, based on current Federal Emergency Management Agency (FEMA) guidelines. Zone 7 will strive to maintain a target balance equal to 2% of the capital assets of the water enterprise system.

Events or Conditions Prompting the Use of the Fund – The Board may designate use of this fund after establishing that conditions exist as called out in the definition and purpose of the fund. Funds will be transferred to the appropriate capital or operating fund as necessary.

Periodic Review Dates for Balances – Fund balances and target level will be reviewed by staff, the Board and the public during the development and approval of each budget.

III. WATER ENTERPRISE DROUGHT CONTINGENCY RESERVE

The Water Enterprise Drought Contingency Reserve, formerly called the “Rate Stabilization Reserve,” supplements losses to water sales revenue resulting from impacts of drought conditions due to regulatory or State and Federal mandated reductions in supply, or an unforeseen event such as a natural disaster, water shortage or other catastrophic event.

Minimum and Maximum Levels – Zone 7 will strive to maintain a minimum target balance equal to seven percent (7%) of the budgeted amount of water sales revenue and a maximum target amount equal to 20% of the budgeted amount of water sales revenue.

Events or Conditions Prompting the Use of the Fund – Funds may be utilized by staff to cover operating expenses when revenue does not cover the cost of providing services (operating expenses and Asset Management Program transfer) due to losses resulting from the aforementioned conditions.

Periodic Review Dates for Balances – Fund balances and the need for funding drought contingency measures will be reviewed by staff, the Board, and the public during the development and approval of each budget. Additionally, the need for funding drought contingency measures may be reviewed at any time during the course of any fiscal year should the need arise.

IV. WATER ENTERPRISE RATE STABILIZATION RESERVE

The Rate Stabilization Reserve is a new reserve that will serve as a means to temper the need for significant water rate increases. Ongoing water rate increases are projected to meet the cost of service. In order to offset significant increases in water rates, the rate stabilization reserve will be established. The reserve will accumulate revenues for use during periods of unanticipated fluctuations in treated water rate revenues and cost of service.

Minimum and Maximum Levels – The Agency will maintain a minimum target level equal to six percent (6%) of the budgeted amount of water sales revenue.

Events or Conditions Prompting the Use of the Fund – This reserve will be drawn down to smooth rate increases as authorized by the Board during the rate-setting and/or budget process. The Agency will strive for an initial target balance of \$6.8 million. To determine whether and in what amount money from this reserve should be used to offset any proposed water rate increase in excess of 2 times the CPI for the San Francisco Bay Area, Zone 7 will consider and analyze the following factors:

1. the annual CPI for the San Francisco Bay Area;
2. the annual increase in construction costs as provided by the Engineering New Record or alternative source for such data;
3. the projected rate increases for the next succeeding five fiscal years of the Agency;
4. the actual rate increases for the previous five fiscal years of the Agency;
5. the projected capital expenditures for the next succeeding five fiscal years of the Agency;
6. the funds on hand to spend on capital projects over the next succeeding five fiscal years of the Agency; and
7. the amounts on deposit in each of the other Reserve Funds covered under this policy.

Periodic Review Dates for Balances – Fund balances and target level will be reviewed by staff, the Board, and the public during the development and approval of each budget.

V. WATER ENTERPRISE CAPITAL IMPROVEMENT, RENEWAL & REPLACEMENT AND SYSTEM-WIDE IMPROVEMENTS RESERVE

The Agency employs a pay-as-you-go funding strategy to minimize debt borrowing and interest expenses, therefore capital reserve funds are accumulated to provide for current and future funding needs of the various capital programs. The amount on deposit in the Water Enterprise Capital Improvement, Renewal & Replacement and System-Wide Improvements Reserve is earmarked by the Board of Directors for capital projects to meet regulatory requirements, replacement needs and system reliability of Zone 7's water enterprise. These capital projects are included in the

- 10-year Water System Capital Improvement Program; and
 - the Asset Management Program (AMP),
- both of which are reviewed and approved by the Board of Directors periodically.

Within this fund is a separate reserve to be used for a portion of the acquisition of the Agency's administrative-engineering building (the "Building Sinking Fund"). Contributions are made to the Water Enterprise Capital Improvement, Renewal & Replacement and System-Wide Improvement Sinking Fund at the discretion of the Agency and money therein is designated for the purpose of acquiring the Agency's future administrative-engineering building. At such time that the administrative-engineering building is acquired by Zone 7, the Building Sinking Fund may be closed at the discretion of the Agency. The Capital Improvement, Renewal & Replacement System-Wide Improvements Reserve funds capital improvement projects and assets, and the renewal or replacement of capitalized assets as they reach the end of their useful lives.

Minimum and Maximum Levels – Funding for the Water Enterprise Capital Improvement, Renewal & Replacement and System-Wide Improvement Reserve shall be targeted at a minimum amount equal to 100% of the estimated capital budget for the fiscal year immediately succeeding the then-current budgeted fiscal year, plus 50% of the estimated capital budget for the fiscal year two years subsequent to the then current budgeted fiscal year. Zone 7 will not have a maximum target for this fund, but rather the fund shall accumulate sufficient reserves to pay for future projects set forth in the AMP and the reserve balance shall be consistent with the reserve balances forecast in the most recent asset management plan and the current capital improvement plan. Funds on deposit in the Building Sinking Fund shall not be considered in connection with the calculation of minimum levels.

Events or Conditions Prompting the Use of the Fund – Staff will recommend that assets be constructed, replaced, upgraded and/or repaired during the development and approval of the annual budget. Funds will be appropriated from the Water Enterprise Capital Improvement, Renewal & Replacement and System-Wide Improvement Reserve for renewal, replacement, or system-wide improvements projects.

Periodic Review Dates for Balances – Fund balances and projected improvement projects will be reviewed by staff, the Board and the public during the development and approval of each budget.

VI. WATER ENTERPRISE CAPITAL EXPANSION RESERVE

The Agency employs a pay-as-you-go funding strategy to minimize debt borrowing and interest expenses, therefore capital reserve funds are accumulated to provide for current and future funding needs. Money in the Water Enterprise Capital Expansion Reserve is earmarked by the Board of Directors for capital projects to meet needs as a result of development and system reliability. In furtherance of meeting such needs the Agency incurred certain non-discretionary financial obligations associated with capital expansion projects. Within this fund are three separate reserves to be used for the:

1. A portion of the acquisition costs for the Agency's administrative-engineering building, (the "Building Sinking Fund");
2. Construction of improvements and enlargements to the South Bay Aqueduct (the "SBA Sinking Fund") and
3. Future Contractors share of the South Bay Aqueduct construction (the "FCSBA Sinking Fund").

Contributions are made to the Building Sinking Fund at the discretion of the Agency and moneys therein are designated for the sole use of acquiring the Agency's administrative-engineering building. At such time that the administrative-engineering building is acquired by Zone 7 the Building Sinking Fund may be closed at the discretion of the Agency.

The Water Enterprise Capital Expansion Reserve is used for the funding of expansion capital projects to accommodate new growth.

Minimum and Maximum Levels – Funding for the Water Enterprise Capital Expansion Reserve shall be targeted at a minimum amount equal to 60% of the estimated non-discretionary amount budgeted annually. Zone 7 will not have a maximum limitation for this fund, but rather the fund shall accumulate sufficient reserves to pay for future capital expansion projects as set forth in the capital improvement plan. The Agency may satisfy the minimum amount through the use of lines of credit, interim inter-fund borrowings or other financing arrangements. Funds on deposit in the Building Sinking Fund, SBA Sinking Fund and FCSBA Sinking Fund shall not be considered in connection with the calculation of minimum or maximum levels of the Water Enterprise Capital Expansion Reserve.

Events or Conditions Prompting the Use of the Fund – Staff will recommend new assets to be constructed during the development and approval of the annual budget. Funds will be appropriated from the Water Enterprise Capital Expansion Reserve for expansion capital projects.

Periodic Review Dates for Balances – Fund balances and projected capital projects will be reviewed by staff, the Board and the public during the development and approval of each budget.

VII. FLOOD CONTROL OPERATING RESERVE

The amounts in the Flood Control Operating Reserve Fund will fluctuate depending on the receipt of property taxes and the annual operating expenses of Zone 7. The Flood Control Operating Reserve is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs. Money on deposit in this fund may be used for unanticipated operating expenses, daily cash flow requirements and emergencies.

Minimum and Maximum Levels – Funding shall be targeted at a minimum amount equal to twenty percent (20%) of the Agency's budgeted total annual operating expenses, and the maximum amount shall not exceed 50% of the total budgeted operating expenses.

Events or Conditions Prompting the Use of the Fund – This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses and/or shifts in the allocation of property taxes to Zone 7.

Periodic Review Dates for Balances – Fund balances and target levels will be reviewed by staff, the Board and the public during the development and approval of each budget.

VIII. FLOOD CONTROL CAPITAL PROJECT RESERVE

The Flood Control Capital Project Reserve is a new reserve that will hold the balance of funds once the Flood Control Operating Reserve Fund achieves levels that are consistent with this Policy on an annual basis. The amount on deposit in the Flood Control Capital Project Reserve is earmarked by the Board of Directors for capital projects to meet Zone 7's flood protection needs. These capital projects are included in the current Flood Control Capital Improvement Plan and in the Stream Management Master Plan and any related updates. Within the Flood Control Project Reserve is a separate reserve to be used for a portion of the acquisition of the Agency's administrative-engineering building (the "Building Sinking Fund"). Contributions are made to this fund at the discretion of the Agency and money therein is designated for the purpose of acquiring the Agency's administrative-engineering building. At such

time that the administrative-engineering building is acquired by Zone 7, the Building Sinking Fund may be closed at the discretion of the Agency.

Minimum and Maximum Levels – There are no current plans to set minimum or maximum target balances in the Flood Control Project Reserve.

Events or Conditions Prompting the Use of the Fund –The Flood Control Project Reserve may be used at any time for flood control maintenance or improvement projects not related to development.

Periodic Review Dates for Balances – Fund balances will be reviewed by staff, the Board and the public during the development and approval of each budget.

IX. FLOOD PROTECTION AND STORM WATER DRAINAGE DEVELOPMENT IMPACT FEE PROJECT RESERVE

The purpose of the Flood Protection and Storm Water Drainage Development Impact Fee (DIF) Project Reserve is to ensure that Zone 7 is able to meet current and future needs for flood control facilities and is primarily intended to provide funding for any flood control facilities required to mitigate the impacts of new development. This Reserve will hold development impact fees in connection with Flood Protection improvements related to development. Within this fund is a separate reserve to be used for a portion of the acquisition of the Agency’s administrative-engineering building (the “Building Sinking Fund”). Contributions to the Building Sinking Fund are made at the discretion of the Agency and money therein is designated for the sole use of acquiring the Agency’s administrative-engineering building. At such time that the administrative-engineering building is acquired by Zone 7 the Building Sinking Fund may be closed at the discretion of the Agency.

Minimum and Maximum Levels – This Reserve will not be required to have a minimum or maximum balance.

Events or Conditions Prompting the Use of the Fund – This Reserve may be used at any time for flood protection projects required to mitigate the impacts of new development.

Periodic Review Dates for Balances – Fund balances will be reviewed by staff, the Board and the public during the development and approval of each budget.

X. STATE WATER FACILITIES OPERATING RESERVE

The amounts in the State Water Facilities Operating Reserve Fund will fluctuate depending on the receipt of property taxes and the annual operating expenses of Zone 7 related to the State Water Project. The State Water Facilities Operating Reserve Fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs. This fund may be used for unanticipated operating expenses, daily cash flow requirements and emergencies related to State Water Project costs.

Minimum and Maximum Levels – Funding shall be targeted at a minimum amount equal to fifty percent (50%) of the Agency’s budgeted total annual operating expenses and a maximum targeted amount of 100% of the Agency’s budgeted total annual operating expenses.

Events or Conditions Prompting the Use of the Fund – This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses and extraordinary decreases unexpected increases in expenses.

Periodic Review Dates for Balances – Fund balances and target levels will be reviewed by staff, the Board and the public during the development and approval of each budget.