

NORTH DELTA WATER AGENCY
Reserve Fund Policy
October 5, 2022

POLICY SUMMARY

The purpose of the North Delta Water Agency (Agency) Reserve Fund Policy is to assure that the Agency will always have sufficient funds available to meet its annual payment obligations under its 1981 Contract for the Assurance of a Dependable Water Supply of Suitable Quality (“Contract”) with the California Department of Water Resources (DWR). The Agency will manage reserves in a manner that allows the Agency to make annual Contract payments consistent with the Agency’s long-term financial management practices, while avoiding shortfalls in future years due to the 25% escalator provision of the Contract. The Agency hereby adopts this Reserve Fund Policy to meet the Agency’s goals and responsibilities in a fiscally prudent manner. The following describes the Agency’s reserve fund, how the Agency will use that fund, and the target funding level.

CONTRACT PAYMENT RESERVE FUND

Background and Need

The Contract provides that DWR will maintain a dependable water supply of adequate quantity and quality for agricultural, municipal, and industrial uses within the Agency. In exchange, the Agency and pays an annual contract payment. Since 1981, the Agency has levied a per-acre assessment pursuant to which landowners within the Agency fund the special benefits they receive under the Contract and from the Agency’s administration, performance, and enforcement thereof. The annual contract payments are in addition to the Agency’s other expenses to run the Agency and to defend and enforce the Contract.

The annual contract payment to DWR is a fixed cost that has a 25% escalator every 5 years. The escalator has resulted in a payment increase from \$170,000 the first year of the Contract, to \$771,236 in 2022. Over the next 40 years, the annual payment is projected to increase from \$771,236 to \$3,677,540. A portion of the annual revenues collected from assessments is put into reserve in anticipation of keeping up with future 25% increases and Agency expenses. If reserves are not increased to keep pace with payment increases, then the Agency will need to conduct an election requesting an increase in the base amount for annual property assessments. The Board last updated the Agency Reserve Fund target funding level to \$2 million in 2016, but has determined an increase in the target funding level will assist the Board efficiently manage Agency reserves.

Use of Funds

The Agency may use the Contract Payment Reserve Fund for annual contract payment obligations to DWR as escalated every five years pursuant to Article 10 of the Contract.

Target Funding Level

The target funding level for the Emergency Repair Fund shall be \$6 million.

ANNUAL REVIEW

Annually during the Agency budgeting process, the Board of Directors shall review the Reserve Fund Policy in order to monitor current levels and to evaluate reserve conformance with formal or informal Agency policies.