

5.00.6 Reserve Policies

In order to assure itself of available cash for District operations, and operate in a prudent and sound manner, the District will establish, dedicate and maintain, as appropriate, reserves to meet known and estimated future obligations. Adequate reserves will also ensure that the District will at all times have sufficient funding available to meet its capital and debt service cost obligations, as well as any unfunded mandates, including regulatory requirements.

- 5.00.6.01 *Operating Reserves* – Operating Reserves are composed of active working capital cash and operating reserves. These reserves finance the timing difference between billing for revenues and payment of expenses. Operating reserves may also be used to cover unanticipated operating expenses or lower than expected revenue collections. The operating reserve level for each enterprise fund will vary over time with a goal of maintaining one month of its anticipated (budgeted) annual expenditures for operating costs and debt service.
- 5.00.6.02 *90 Day Emergency Operating Reserve* – The 90 Day Emergency Operating Reserve essentially protects the District against financial impacts from unanticipated catastrophes or emergencies. It also provides funding for emergency repairs or failure of essential equipment that needs to be replaced immediately. Typically, the funding level is an amount equal to the required cash flow until such time that adequate emergency financing can be secured from conventional resources, or approximately three months of its anticipated (budgeted) annual expenditures for operating costs and debt service.
- 5.00.6.03 *Asset Replacement Reserve* – The Asset Replacement Reserve will be maintained to fund the repair and replacement of the District’s existing capital infrastructure and equipment. The District will use the additional funding derived from the 2013 rate increase (Ordinance 2013-01) as provided in the current and future rate structures as the funding mechanism for the Capital Repair and Replacement Program. These funds will be expended consistent with the assessments prepared in the master plan as adopted by the Board of Directors. The District will monitor and report quarterly upon the progress which these funds are collected and reinvested towards the backlog of asset renewal.
- 5.00.6.04 *Debt Service Reserves* – Reserves for debt service provides funds in accordance with debt issuance documents; i.e. official statements and trustee agreements. The amount of such reserves will be established in accordance with the legal covenants of the debt issue. It is common with bond issues to establish a reserve account to provide security for bondholders. The reserve account is to accumulate funds for payment of bonds, principal and interest.
- 5.00.6.05 *Rate Stabilization Reserve* - The Rate Stabilization Reserve is intended to assist in the smoothing of future rate increases by allowing graduated

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increases over a period of time. The reserve can also provide a buffer should revenue estimates in any year not meet projections, and can be applied when revenues are not sufficient to meet the required debt service coverage ratio. The reserve level will vary over time with a goal of maintaining at minimum an amount equal to ten percent (10%) of operating revenues.

- 5.00.6.06 *Water Rights Reserve* - The purpose of this reserve is to cover the cost associated with efforts to secure, protect and preserve the District's water rights, which may include funding projects and other activities which will enhance, protect, secure and preserve water rights for beneficial use. The minimum funding level of this reserve will be \$3 million.
- 5.00.6.07 *Capital Improvement Program (CIP) Cash Flow Reserve* - This reserve is designated as a discretionary project fund to be used to pre-fund grants and other reimbursable CIP Programs. The reserve level will vary over time with a goal of maintaining a balance of \$2 million.
- 5.00.6.08 *Special Projects Reserve* - This fund is specifically established for Board directed special projects. Such projects may include specialized studies, construction projects, funding grant match requirements, equipment or vehicle repair or replacement, debt service, and such other activities deemed appropriate by the Board. Funding for this reserve is derived from a portion of the District's annual property tax revenues. The Board will consider reserve funded projects during the budget process or at such other times during the fiscal year if the need arises.
- 5.00.6.09 *Expansion Reserves* - These reserves are restricted to fund only growth-related capital improvements or pay for growth-related debt. The revenue source for these funds are capacity fees, fees that are charged for the purpose of defraying all or a portion of the cost of public facilities related to a new service connection. The capacity fees and the investment interest income earned by moneys in these funds, by law (GC 66000), shall be expended only for the purpose for which the fee was originally collected.
- 5.00.6.10 Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment, (e.g. rates will be reviewed after two consecutive years of loss of revenue or diminishing reserves as a result of covering costs).
- 5.00.6.11 All expenditures drawn from reserve accounts will require prior Board approval unless previously authorized by an approved budget document. In any case, where the reserves are drawn, a report shall contain the reasons for withdrawals and any impacts to programs or rates due to such withdrawal.

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- 5.00.6.12 Reserves at the end of the year shall remain in the specified funds, unless otherwise approved by the Board.
- 5.00.6.13 The District may establish other reserves for specific needs that are over and above the reserves noted above.