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Approved by: Board of Directors		Date: 3/28/17 Revision: 17

The District maintains the following three categories of reserves.

- Legally Restricted Reserves
- Board Mandated Reserves
- Board Restricted Reserves

Legally Restricted Reserves

The District is required to establish, maintain, and restrict certain Cash reserves to comply with contractual and/or legal obligations (“Legally Restricted Reserves”). Accordingly, the District reserves Cash from operational revenues and various other sources to restrict cash as necessary to fulfill the following reserve requirements.

- A. **Bond Reserve Investment:** Bond Indentures (including the State Revolving Fund Loan) require that the District establish and maintain certain reserve funds as established by the debt service agreements. These amounts will change from year to year as annual debt service requirements change, bonds are retired and new bonds are issued.
- B. **Capital Facility Fee:** State law requires that the District establish, maintain and separately account for Capital Facility fees collected from customers. Funds are held in reserve until disbursed for the designated purpose.

Superseded by Resolution: 97-6-5	Date: 07/19/97
Superseded by Resolution: 98-6-1	Date: 06/18/98
Superseded by Resolution: 99-6-1	Date: 06/17/99
Superseded by Resolution: 00-6-3	Date: 06/22/00
Superseded by Resolution: 01-6-2	Date: 06/21/01
Superseded by Resolution: 03-4-2	Date: 04/24/03
Superseded by Resolution: 04-5-1	Date: 05/27/04
Superseded by Resolution: 06-9-1	Date: 09/28/06
Superseded by Resolution: 11-3-2	Date: 03/24/11
Superseded by Resolution 12-3-1	Date: 03/22/12
Superseded by Resolution 13-3-1	Date: 03/28/13
Superseded by Resolution 15-4-1	Date: 4/23/15
Superseded by Resolution 16-4-1	Date: 4/28/16
Superseded by Resolution 17-3-2	Date: 3/28/17

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Board Mandated Reserves

The Board mandated reserves are maintained for funding basic needs of the District, including revenue shortfalls, unplanned expenses or unanticipated risks (“Rate Stabilization” and “Operating” Reserves). Also included in Board Mandated Reserves are funds utilized to support monthly cash flow (“Working Capital”) and cash ear-marked for funding the Capital Replacement and Refurbishment Program (“Capital Reserves”).

Reserves may be amended or closed by the Board provided such action does not impair any obligation that has been incurred by the District. Upon completion of a project for which a reserve exists, the General Manager shall close that reserve after all work has been completed and all other costs have been paid. Unused reserve balances shall be returned to Working Capital. All reserves shall be reviewed at least annually to determine the status of work and changes. The General Manager shall report annually to the Board on the status of reserves to permit the Board to consider which, if any, of such reserves should remain open or be closed.

The General Manager is authorized to restrict the source of funds for reserves to pay for capital programs or other contractual or legal obligations. The General Manager shall report quarterly to the Board all changes in sources of funding from those restricted at the time of approval of the reserve.

Reserves should be maintained at a level that will provide for financial security required of a fiscally responsible local government. The minimum level of Board Mandated reserves has been deemed to be \$8,500,000 excluding contractual or legal obligations. Interest earned on those funds held in reserve will be deemed unreserved and be utilized as a source of revenue to meet the needs of the operating budget. If reserves are drawn below contractual or legal requirements or the minimum level established by this policy, the reserves would be replenished from Working Capital to the extent available, operating revenues or other revenue or cash flow sources as required.

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<u>Board Mandated Reserves</u>	<u>Minimum Level</u>
Capital Reserves	\$ 3,000,000
Rate Stabilization Reserve	\$ 2,200,000
Operating Reserves	\$ 1,300,000
Working Capital	<u>\$ 2,000,000</u>
TOTAL	<u>\$ 8,500,000</u>

Reserve Description/Purpose

- A. **Capital Reserve**: (approx. 100% of average annual capital expenditures) This reserve is established to provide a funding source for the Long Term Capital Replacement and Refurbishment Program. In addition, it is a source of funds to meet construction progress payments that other financing sources do not adequately provide for planned or unplanned capital restoration and replacement projects.

Typically capital expenditures are funded out of the current year collections of the water, sewer and recycled water Capital Replacement and Refurbishment ("Capital R & R"). To the extent that the current year Capital R & R collections are not sufficient to cover capital expenditures for a particular year, then the District relies on capital reserves. If current Capital R & R collections plus capital reserves are not sufficient to cover the District's five-year capital expenditure program, then the District will investigate alternative funding sources or rate adjustments.

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It is the District's intent to fund capital expenditures out of current cash flows and to have adequate capital reserves to assure total funding of the District's ongoing five-year capital Restoration and Replacement Program. The determination of the capital reserve will be as follows:

- 1) Funds available from Capital R & R collections, based on the District's current year operating budget, will be projected for the five-year period.
- 2) Capital expenditures, as included in the operating budget will be projected for the five-year period.

The Capital Reserve will be the difference between the funds available (item 1) and the funds required (item 2) but not less than \$3 million.

B. Rate Stabilization Reserve: (approx. 7.5% to 15% of annual O & M cost, excluding depreciation.) This reserve is established to provide a source of funds when unusually wet weather or drought restrictions cause water sales to fall below levels used to prepare the budget for the year in question. In addition, the rate stabilization reserve will provide necessary funds in those years where budgeted revenues from all sources is not sufficient to meet budgeted expenses.

C. Operating Reserves: (approx. 5% to 10% of annual O & M cost, excluding depreciation.) This reserve is established to provide a source of funds to ensure continual operations as follows:

- Other revenue sources fall short of expectations. (i.e. interest income, property taxes, etc.)
- Budget overages are experienced; such as the need to complete major repairs to critical operating equipment when such equipment was not scheduled for major repair.
- SOCWA operations and/or capital expenditures that exceed the budgeted amounts.
- Needed repairs that may be necessary to restore operations after a natural disaster. As a public agency providing a vital service to the community, the District cannot afford to be inoperable for an extended period of time.

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D. **Working Capital:** (approx. 7.5% to 10% of annual O & M cost, excluding depreciation.) In order to ensure adequate operating cash the District will maintain Working Capital funds equal to at least 1 month of cash flow requirements (O&M costs excluding depreciation).

Board Restricted Reserves

Conservation/Water Supply Reserve: The amount of this restricted reserve varies based upon Tier III and Tier IV water sales less the water supply and delivery rate component. This reserve is established to provide a source of revenue to fund Conservation efforts and development of Water Supply Resources (Conservation/Water Supply Reserves) as follows:

- The conservation program inclusive of personnel, outreach, newsletters, website support and any other efforts dedicated to supporting, encouraging and promoting water conservation.
- To enhance, expand and/or add to customer water use efficiency rebate programs in which the District participates in or initiates.
- To fund the investigation, study, design and construction of Recycled Water Treatment and Delivery Projects.
- To fund supplemental revenue as necessary to balance the revenues and operational expenses of the Recycled Water Enterprise.
- To fund the investigation, study, design and construction of Supplemental Potable Water Supply Projects.

Baker Funding Reserve: A portion of the revenue generated from the water capital charge will be used to fund a portion of the debt associated with the Baker Water Treatment Plant project in the amount of \$500,000. A portion of the Capital R&R charge revenue is accumulated in the Baker Funding Reserve to be used when the Baker Water Treatment Plant loan payment is due.