

§6040 CASH RESERVE POLICY

The District allocates its cash and investment balances into the following reserve categories.

- Restricted Reserves
- Committed Reserves
- Assigned Reserves

1. Restricted Reserves

The District is required to establish, maintain, and restrict certain Cash reserves to comply with external contractual and/or legal obligations ("Restricted Reserves"). Accordingly, the District restricts Cash from operational revenues and various other sources to fulfill the following potential Restricted Reserve obligations.

- A. Debt Covenant Reserve: Bond and Debt Indenture Agreements (including State Revolving Fund Loans) may require the District to establish and maintain certain reserve funds. These amounts may change from year to year as annual debt service requirements change, debt is retired or new debt is issued.
- B. Debt Project Reserve: Debt is typically issued by the District for specific projects and debt covenants may require the District to expend the debt proceeds within a certain timeframe or for the purposes identified in the Official Statement or loan document. Debt proceeds will be maintained in this Reserve until expended in compliance with the Debt Covenants.
- C. Capital Facilities Fee Reserve: State law requires the District to establish, maintain and separately account for Capital Facility fees collected from commercial and residential developments for improvements to the District's infrastructure. Funds are held in reserve until disbursed for the designated purpose.

2. Committed Reserves

Committed Reserves have been established by Board action and are intended to provide stability to the District's finances by establishing reserves that will be maintained unless the District is experiencing an emergency or other extreme circumstance. The Board may authorize the utilization of the Committed Reserves but a plan to replenish them will be identified when they are utilized. Any shortfalls in the Committed Reserves balances will be reported to the Board on a timely basis. The Committed Reserves include:

- A. Rate Stabilization Reserve: (7.5% to 15% of annual Operations & Maintenance expenses, excluding depreciation and interest expenses) 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 or when unusual conditions

result in revenue shortfalls. In addition, the rate stabilization reserve will provide necessary funds in those years where budgeted revenues from all sources are not sufficient to meet budgeted expenses.

- B. Operations & Maintenance Reserve: (7.5% to 15% of annual Operations & Maintenance expenses, excluding depreciation and interest expenses) This reserve is established to provide a source of funds to ensure continual operations in challenging circumstances, such as:

1. Other revenue sources fall short of expectations. (i.e. interest income, property taxes, etc.)
2. 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.
3. SOCWA operations expenditures that exceed the budgeted amounts.
4. 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.

- C. Capital Improvement Reserve: This reserve provides a funding source for the Capital Improvement Program. In addition, the reserve serves as a source of funds to meet construction project progress payments for planned or unplanned capital improvement projects for which other financing sources are not immediately adequate. Typically, capital expenditures are funded out of the current year collections of the water, sewer and recycled water Capital Charge. To the extent that the current year Capital Charge collections are not sufficient to cover capital expenditures for a particular year, the District then relies on capital reserves. Based on historical expenditures and future revenues, the Capital Improvement Reserve is targeted to be \$3.0 million at the end of each fiscal year.

Any funds remaining in the Capital Improvement Reserve at the end of a fiscal year greater than \$3.0 million that are not allocated to the Carryover Capital Reserve, should be allocated to future capital improvement related activities (Accumulated Capital Reserve, SOCWA Capital Reserve).

- D. Working Capital Reserve: The Working Capital Reserve is intended to provide working capital for the operations and maintenance activities of the District. This Reserve will fluctuate throughout the year as revenues are received and expenses and liabilities are paid. At the end of each Fiscal Year, the District's goal is to have 7.5% to 15% of annual operations and maintenance expenses, excluding depreciation and interest, in the Working Capital Assigned Reserve. The Working Capital Reserve is the net cash remaining after the reconciled cash balance has been allocated to all of the other Reserve Balances.

The minimum total Committed Reserves has been set at \$9,300,000 as noted below. 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 the Board of Directors authorizes the General Manager to utilize a Committed Reserve balance and the balance is less than the minimum level established by this policy, the reserves will be replenished, to the extent available, from operating revenues or other revenue or cash flow sources as required. If operating revenues or other revenues or cash flow sources are not immediately sufficient to replenish any reserve that has been drawn below the minimum reserve level, the General Manager shall present the Board with a plan to replenish the reserve. If, in a particular year or for multiple years, the District anticipates it will not meet the Minimum Total Committed Reserve Balance, during the budget development process, the General Manager and Chief Financial Officer will develop a plan to replenish the reserves as necessary to meet the minimum total balance and present the plan to the Board of Directors for discussion. The Committed Reserve balances shall be reported to the Board as part of the monthly financial report.

<u>Committed Reserves</u>	<u>Minimum Level</u>
Capital Improvement Reserve	\$3,000,000
Rate Stabilization Reserve	\$2,100,000
Operating Continuity Reserve	\$2,100,000
Working Capital Reserve	\$2,100,000
Total	\$9,300,000

3. Assigned Reserves

The District has established the following three categories of Assigned Reserves:

- CIP Reserves
- Water Supply Program Reserves
- Debt Service Reserves

A. CIP Reserves

CIP Reserves consist of collected Capital Charge rate revenues or other capital funding sources that are allocated to capital projects.

The General Manager is authorized to create, amend, or close CIP Reserves provided such action does not impair any obligation that has been incurred by the District. Any remaining cash in a CIP Reserve that is closed

will be returned to another CIP Reserve. The following CIP Reserves include:

1. Carryover Capital Projects Reserve – This Reserve is for capital budget items from prior years that were not completed but are intended to be completed in a future Capital Budget. The revenue for these projects was collected from the Capital Charge rates in the year in which the project was budgeted and is therefore allocated to this reserve to maintain budget funding for the project.
2. Accumulated Capital Reserve – This Reserve is cash that has been accumulated from capital budget items that were either cancelled or completed under budget and therefore had cash remaining at the end of the project. The Accumulated Capital Reserve is intended to provide resources for capital projects that may exceed their initial budget or for necessary capital projects that are unanticipated but need to be funded prior to the next fiscal year budget.
3. SOCWA Capital Projects Reserve – This Reserve is intended to provide stability to the District's finances by accumulating cash in anticipation of future SOCWA capital obligations. The District is contractually required to pay a portion of SOCWA capital projects but in certain years the District's obligation may exceed the entire Capital Facilities revenue received in that year. The SOCWA Capital Projects Reserve accumulates cash reserves in anticipation of these future SOCWA capital obligations.
4. Revenue Bond Unrestricted Reserve – This reserve accumulates cash recovered from partners in certain bond funded projects. This reserve is not subject to the timing restrictions of the Debt Project Reserve. The Revenue Bond Unrestricted Reserve will be used to supplement the Debt Project Reserve in the funding of significant infrastructure capital projects.
5. Current Year Capital Working Capital Reserve – During the course of a fiscal year, the Current Year Capital Working Capital Reserve will accumulate resources (primarily from Capital Charge revenues) and pay capital expenditures for the current year Capital Improvement Program. At the end of each fiscal year, the General Manager, working with the Finance Department, will allocate any remaining capital budget to the Carryover Capital Reserve for those projects or purchases that will be completed in future years or to other CIP Reserves as appropriate.

B. Water Supply Program Reserve

The Water Supply Program Reserve is made up of funds collected through the District's tiered rates. The amount of this 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 Water Use Efficiency efforts and development of Water Supply Resources as follows:

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

C. Debt Service Reserve

Baker Funding Reserve – This Reserve accumulates a portion of the revenue generated from the Water Capital Facility Charge which is used to fund the debt associated with the Baker Water Treatment Plant project. Beginning with the 2021-2022 Budget, this amount will increase through 2025-2026 to eventually fully fund the Baker Water Treatment Plant Debt Service. This portion of the Water Capital Facility Charge revenue is accumulated in the Baker Funding Reserve to be used when the Baker Water Treatment Plant loan payments are due.

R 94-6-1 06/16/94; R 95-2-2 02/12/95; R 96-7-1 07/18/96; R 97-6-5 07/19/97; R 98-6-1 06/18/98;
R 99-6-1 06/17/99; R 00-6-3 06/22/00; R 01-6-2 06/21/01; R 03-4-2 04/24/03; R 04-5-1 05/27/04;
R 06-9-1 09/28/06; R 11-3-2 03/24/11; R 12-3-1 03/22/12; R 13-3-1 03/28/13; R 15-4-1 04/23/15;
R 16-4-1 04/28/16; R 17-3-2 03/28/17; R 20-4-1 04/20/20; R 21-5-1 05/24/21; R 22-7-1 07/25/22;
R 23-12-2 12/21/23