



## **Reserve Policy**

October 26, 2022

### **Purpose**

A key element 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. Casitas Municipal Water District (“District” or “CMWD”) will strive to have sufficient funding available to meet its existing operating, capital, and debt service obligations in a manner consistent with its Operating Budget and Capital Spending Plan. The District has established reserves for operational stability and for future capital needs in order to minimize significant rate fluctuations due to unforeseen and unexpected cash flow requirements. Reserves may be designated for specific purposes with minimum balances consistent with statutory obligations. The Reserve Policy is intended to ensure that the District has sufficient funds to meet current and future needs.

### **General Provisions**

The District maintains the reserves in separate designated accounts within its accounting system in a manner that ensures financial soundness and provides transparency. Maintaining reserves at appropriate levels is a prudent, ongoing business process that consist of regular assessment and application of various funding alternatives. Either alone or in combination with each other, these alternatives may include rates, loans and grants, debt financing, investment of funds, and levels of capital expenditures.

The Board of Directors along with the General Manager will be responsible for managing the reserves. The Board must authorize all the expenditures for the reserve funds and approve any reallocation of funds or any transfers among the reserves. The balance of the reserves will be reviewed annually to evaluate the goals and propose of each reserve and make adjustments as necessary.

### **Definitions**

**Restricted Reserves:** Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws or regulations governing use.

**Unrestricted Reserves:** These funds have no externally imposed use restrictions. The use of unrestricted funds is at the discretion of the Board. Unrestricted funds are designated for a specific purpose, which is determined by the board. The Board has authority to redirect the use of these funds as needs change.

## District Specific Reserves

The District maintains the following reserves:

### Restricted

Unspent Bond Proceeds:

#### 1. CFD 2013-1 Improvement Fund

- Purpose- Established as a condition of each bond issue. The funds are restricted for use designated in the bond's Official Statement.
- Use of reserves- May be used as designated in the official statement which include costs incurred to plan, design, engineer, finance, supervise, construct, and install, inspect, and obtain necessary permits for the purchase, construction, improvement, or rehabilitation to property or facilities with in the CFD boundaries

Capital Reserves:

#### 1. Capital Facilities Reserve

- Purpose and use of reserves- Funds are used to fund capital projects or the rehabilitation, enhancement or replacement of capital assets as they reach the end of their useful life. Staff recommends capital projects during the annual budget process and as these projects are approved, funds are appropriated from reserve funds or available revenues.
- Target Level- No specific target level. The District may set aside capital moneys for replacement funds on a project-by-project basis.

Other Post-Employment Benefits (OPEB)

- Purpose and use of reserves- Non-pension benefits provided to employees after employment ends and includes health insurance coverage for retirees and their families. The District currently funds OPEB on a pay-as-you-go basis, paying an amount annually equal to the benefits distributed or claimed that year. If necessary funds can be used to pay down the District's obligations.
- Target Level- No specific target level.

Adjudication:

#### 1. Adjudication Funds Reserve

- Purpose and use of reserves - Funds collected through charges to customer water bills that fund costs of Adjudication.
- Target Level - No specific target level.

### Unrestricted

Operational Reserves:

#### 1. Operating Funds Reserves

- Purpose and use of reserves- This reserve may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses, unexpected decreases in revenues and increase in expenses, and to fund improvement capital projects.
- Target Level- 25% of the operations budget

## Emergency Reserves:

### 1. Storm Damage

- Purpose and use of reserves- This reserve may be used to cover temporary cash flow deficiencies related to maintenance and repair activities related to storm damage.
- Target Level- No specific target level.

### 2. Variation in Water Sales

- Purpose and use of reserves- This reserve may be utilized to cover temporary cash flow deficiencies caused by reduction in water sales.
- Target Level- No specific target level but staff will recommend funds be added when there are excess water sales revenues and removed when water sales revenues are deficient.

## Capital Reserves:

### 1. Capital Replacement

- Purpose and use of reserves- Funds are used to make improvements to existing infrastructure. Staff recommends improvement projects during the annual budget process and as these projects are approved, funds are appropriated from reserve funds or available revenues.
- Target Level- No specific target level. When the capital replacement schedule is completed a specific target level can be set by the District to fund future projects.

### 2. Alternate Water Supply Study

- Purpose and use of reserves- This reserve may be used for costs associated with alternate water supply development and acquisition.
- Target Level- No specific target level.

### 3. Conservation Penalty

- Purpose and use of reserves- Established to accumulate funds received from customers for penalties associated with consumption. This reserve may be utilized to cover costs associated with conservation activities and water supply development and acquisition.
- Target Level- Funding for this reserve fluctuates based on the revenue received from conservation penalties.