

**Policy No.:** 61  
**Issue No.:** 1  
**Effective Date:** 10/11/21  
**Subject:** District's Reserve Policy

## **Policy No. 61 – District's Reserve Policy**

**Purpose:** The purpose of the District's Reserve Policy is to ensure that the District has adequate funding available to meet its operating and capital obligations. Reserves should be managed in a manner to fund costs consistent with its annual capital improvement program, forward-looking financial plan, and other long-term plans.

### **Policy/Procedure:**

The Board of Directors may establish reserve funds and reserve minimum balances as it determines to be in the best interest of the District. The reserve balances are intended to ensure that the District has enough reserves to meet current and future needs. Such balances shall be reviewed by the Board and District staff on an annual basis as part of the budget process.

With this Policy, the District establishes and segregates several reserve funds to protect the investment in various assets and to meet its financial, regulatory, and contractual obligations. The proper management of these reserves will provide additional assurance that the current levels of service quality and reliability will be met now and into the future.

This Reserve Policy establishes the reserve funds and the level of reserves necessary for adequately providing for the following.

- Funding infrastructure replacement
- Cash flow requirements
- Economic uncertainty
- Local disasters or catastrophic events
- Unfunded mandates and regulatory changes and requirements

### **Reserve Funds:**

The District's reserve funds may be generally classified as operating, capital, and restricted funds. A "fund" is a segregation within the District's accounting system to keep sources and uses of funds easily identifiable and reportable.

The cash reserve balances are to be maintained in separate funds within the accounting system in a manner that ensures accurate tracking of transactions and transparency to the District's taxpayers. The District will follow standardized methods of financial reporting such as Governmental Accounting Standards Board (GASB) No. 34 and/or No. 54.

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Target reserves are minimum levels set for each fund. The minimum reserve balances are intended to support a sustainable financial condition, recognizing the risk and long-range financial planning perspective that is acceptable to the District. It is intended that interest income generated from any specific restricted reserve fund remain in such fund until any regulatory or contractual maximum is achieved. Once such maximum is achieved, interest income will be allocated to the Operating Fund until its maximum is reached as stated in this Reserve Policy. Reserves over the maximum are transferred to the associated Capital Replacement Fund. The following funds and reserve targets are established with this Reserve Policy.

**Operating Fund Reserve:**

Purpose: The purpose of the Operating Fund Reserve is to provide working capital to meet cash flow needs during normal operations and to support the operation, maintenance, and administration of the District. The reserve is intended to reduce impacts from unforeseen events such as property tax revenue decrease, litigation, and legislative actions. This reserve ensures that operations can continue should there be significant events that impact cash flows.

Target Operating Reserve: The Target Operating Reserve for this fund is established as at a minimum of 6-month of annual operation and maintenance ("O&M") expense or no less than \$1.5 million. The Operating Reserve is held in the 30026 Operating Reserves account.

Authority to Use Operating Reserve:

Authority for use of up to 30% of operating reserves is delegated to the General Manager in consultation with the Board Treasurer. The use of operating reserves will be reported to the Board of Directors at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds, and plans for replenishment to restore the Operating Reserve Fund to the target minimum amount. General Manager must receive prior approval from the Board of Directors for use of operating reserves in excess of 30%.

**Capital Replacement Fund Reserve:**

Purpose: The Capital Replacement Fund Reserve is used to fund future replacement of system capital assets and capital projects and to provide a cushion for uncertainty in the long-range capital replacement program. The reserve provides for timely repair and replacement of system capital facilities.

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Target Reserve: The Target Reserve for the groundwater recharge system is two times the projected 5-year Capital Improvement Program expenditures, or no less than \$5 million. The Capital Reserve is further divided into the following funds: These funds are 30012 Major Structural Failures/Emergency, 30022 Basin Improvements, and 30027 District Facilities Reserve are established Unrestricted, but Assigned Funds.

Authority to Use Capital Reserves:

Any use of the Capital Reserves must be approved by the Board of Directors accompanied by a description of the analysis and determination of the use of funds and plans for replenishment to restore the Capital Reserve Fund to the target minimum amount.