

CARPINTERIA VALLEY WATER DISTRICT

RESERVE POLICY

PURPOSE

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The Carpinteria Valley Water District has established reserve funds for its long term organizational and operational stability and the reserve funds enable the District to minimize significant rate fluctuations due to unforeseen and expected cash flow requirements. This Reserve Fund Policy is to ensure that the District accumulates, manages, maintains, and uses certain financial resources only for specific purposes:

- Funding infrastructure replacement.
- Economic uncertainties and other financial hardships.
- Loss of significant revenue sources such as connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded statutory mandates including regulatory requirements.

POLICY

Operating Reserves

- A. Definition and Purpose – Established to cover temporary cash flow deficiencies that occur as a result of timing differences between the receipt of operating revenue and expenditure requirements and unexpected expenditures occurring as a result of doing business.

November 14, 2018

- B. Target Level – Six months operating and debt service expenditures for timing differences and \$1,000,000 maximum for unexpected expenditures.
- C. Events or Conditions Prompting the Use of the Operating Reserve – This reserve may be utilized as needed to pay outstanding operating expenditures prior to the receipt of anticipated operating revenues. This reserve shall also be utilized to cover unforeseen extraordinary costs.

Capital Reserves

- A. Definition and Purpose – Established to provide capital repair and replacement funding as the District’s infrastructure deteriorates over its expected useful life. Capital reserves are also available for unplanned (unbudgeted) capital replacement. Capital reserves will be accumulated to fund infrastructure projects and will be an integral part of the District’s capital plan documents in its Five-Year Financial Plan. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense.
- B. Target Level – Two times annual depreciation expense.
- C. Events or Conditions Prompting the Use of the Capital Replacement Reserve – Through the annual budget process, staff shall recommend anticipated asset replacement projects. The Board of Directors shall take action to approve recommended project appropriations from Capital Reserves. Authorization for the use of capital reserves for unplanned capital replacement will first be brought before the Rate & Budget committee for consideration and then brought before the Board of Directors.

Emergency Reserve

- A. Definition and Purpose – Established to provide protection recovery to the District and its customers for losses arising from an unplanned event or circumstance. The reserve level combined with CVWD’s existing insurance policies should adequately protect CVWD and its customers in the event of a loss.

- B. Target Level – Established at a minimum level equal to \$2,000,000 and shall accumulate interest and annual contributions as determined by the District’s annual operation to a maximum level of \$3,000,000.
- C. Events or Conditions Prompting the Use of the Emergency Reserve – This reserve shall be utilized to cover unexpected losses experienced by the District as a result of a disaster or other unexpected loss. Any reimbursement received by the District from insurance companies as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss.

PROCEDURE FOR MONITORING RESERVE LEVELS

The Assistant General Manager shall perform a reserve analysis to be submitted to the Board of Directors upon the occurrence of the following events:

- Board of Directors’ deliberation of the annual budget;
- Board of Directors’ deliberation of a service charge rate increase;
- When a major change in conditions threatens the reserve levels established within this policy.

If the analysis indicates projected or actual reserve levels falling 10% below or above the levels outlined in this policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level, and/or
- An identified course of action to bring reserve levels within the minimum and maximum levels prescribed.