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# MARINA COAST WATER DISTRICT

## POLICY MANUAL

**POLICY TITLE:** Reserve Policy

**POLICY NUMBER:** 3050

**3050.1** Purpose. The purpose of this policy is to ensure Marina Coast Water District (“District” or “MCWD”) has sufficient funds to meet current and future needs.

**3050.2** Policy Statement. A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, debt service needs, unforeseen events, stable rates for service, and the security that the District can respond to emergencies.

Adequate reserves directly affect the District’s bond rating and ultimately the ability to access debt markets at favorable interest rates, thereby enhancing the ability to finance and construct the infrastructure necessary to renew existing systems and expand water and wastewater service levels to meet projected needs.

As part of adoption of the annual budget, the District Board of Directors (the “Board”) will approve appropriate levels and uses for reserve funds based upon the needs of the District.

**3050.3** General Provisions.

**3050.3.1** The District may maintain its liquidity and capital funds in separate, designated sub-accounts in a manner that ensures its financial soundness and provides transparency to its ratepayers. The Fund balances are considered the minimum necessary to maintain the District’s creditworthiness and adequately provide for:

- Compliance with applicable statutory requirements
- Financing of future capital facilities
- Financing of repair and replacement of existing assets
- Cash flow requirements
- Economic uncertainties and other financial hardships or downturns in the local or national economies
- Unexpected local disasters, such as earthquakes, fires, etc., or system failures
- Contingencies or unforeseen operating or capital needs
- Rate stabilization

**3050.3.2** MCWD has established and will maintain the following categorization of reserve funds:

- A. Restricted Funds – All funds restricted by outside sources such as creditors, grantors, contributors, or laws or regulations of other governmental entities. Refer to section 3050.4.1.

- B. Designated Funds – Funds set aside for a specific purpose, which is determined at the sole discretion of the Board. The Board also has the authority to redirect the use of these reserve funds as the needs of the District change. Refer to section 3050.4.2.

**3050.3.3** This Policy is intended to meet requirements at the District level. For purposes of this Policy, the Component Systems are Marina Water, Marina Sewer, Ord Water, Ord Sewer, Recycled Water and Groundwater Sustainability Agency.

The District recognizes the differences in capital and liquidity needs between the Marina community and the Ord community. Additionally, the District recognizes the differences in capital planning and liquidity requirements between the water and sewer systems. The District will continue to maintain distinct records and accounts for amounts determined under this Policy attributable to each Component System.

Compliance with this Policy will be measured at the District level, however, in furtherance of compliance with this Policy and equity between rate payers of each community, and costs differences between the water, wastewater, recycled water and the Groundwater Sustainability Agency, the District may take into account the specific fund balances associated with each Component System and may take any legally authorized action necessary to ensure the compliance and equity intended hereunder.

#### **3050.4** Fund Target Levels and Management.

##### **3050.4.1** Restricted Funds.

1. Bond Proceeds Fund(s): These funds are derived from the proceeds of a bond issue. The use of these proceeds is restricted by conditions set forth in the governing bond documents, typically consisting of construction fund monies and a debt service reserve fund (“DSRF”). These funds are generally held by the Trustee in favor of the bond holders.
2. Capacity Fee Reserve Fund: These funds are fees collected from developers and are restricted to the design and construction of capital facilities for water and wastewater delivery. These fees are for offsite improvements such as the development's fair share cost of wells, reservoirs, transmission mains, treatment plant capacity, wastewater facilities and other necessary facilities. Fees are collected at rates established by the Board based upon specific financial rate studies. The rates charged are based on a project's equivalent dwelling unit (EDU) basis. This Capacity Fee Reserve Fund is drawn upon as planned capital expenditures occur. The balance in this fund will fluctuate depending on the number and timing of development projects and the progress of design and construction of capital facilities by the District. No target fund balance is set by Board.

##### **3050.4.2** Designated Funds.

1. Capital Replacement and Improvement Fund: These funds shall be used for funding of the replacement of capital assets when they reach the end of their useful lives, or improvements to any Component System. Funds herein further enable the District to undertake multi-year projects and possess the financial ability to pay for unbudgeted, unplanned replacement needs.
  - Target Level. Target is the amount of single most expensive asset to replace for each Component System. Funding for this reserve will be considered as part of the annual budget process. MCWD may set aside replacement or improvement monies on a project-by-project basis.
  - Events or Conditions Prompting the Use of the Fund. Staff will recommend new assets to be constructed or assets to be replaced based on the District's CIP Master Plan. As projects are approved by the Board, funds will be appropriated from this reserve fund as necessary.
  
2. Operating Reserve Fund: Funds for unanticipated, current operating expenses and to meet routine cash flow needs. This fund may be routinely utilized to cover temporary cash flow deficiencies caused by (i) timing differences between revenue and expenses; (ii) unexpected decreases in revenues; or (iii) unexpected increases in expenses.
  - Target Level – The Operating Reserve shall have a target balance equal to 150% (18 months) of the District's currently budgeted operating expenses.
  - Events or Conditions Prompting the Use of the Fund – This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by (i) timing differences between revenue and expenses; or (ii) unexpected decreases in revenues; or (iii) unexpected increases in expenses.
  - Replenishment – in the event the Operating Reserve Fund is at or below the target level, the Board will take appropriate action to increase revenues to restore the balance to the target amount as soon as feasible. Funding for this reserve will be considered annually as part of the budget process.
  
3. Rate Stabilization Fund: Funds to assist in smoothing rates; to reduce (buy down) rate increases as the Board deems appropriate. Funds deposited into this reserve are treated as operating revenues in the year of deposit and will be treated as such in years of use for the purposes of computing the District's debt service coverage ratio.

The Board, upon the recommendation of staff, on a case-by-case basis, will determine the amount and timing for the funding of the Rate Stabilization Fund. Draw down is at the discretion of the Board on a case-by-case basis.

- Target Level – Target is 10% of the Rate Revenues for any fiscal year. Target will be reached in five years, by setting aside 2% per year. The Board, upon the recommendation of staff, will determine the amount and timing for the funding of the Rate Stabilization Fund annually during the budget process. The plan is to fund this account by setting aside 2% of the Rate Revenues over five years. The District shall set the amounts in line with the 5 Year Rate Study.

**3050.5** Funding Priority. The District will strive to fully fund the reserves in the following order:

- Capital Replacement and Improvement Fund
- Operating Reserve Fund
- Rate Stabilization Fund
- Remaining balance shall go to General Fund.

**3050.6** Delegation of Authority. The Board has sole authority to amend or revise this Policy. Through approval of this Policy, the Board has established written procedures for staff to follow in the management of the District's Reserve Funds.

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Adopted: July 14, 2009 via Resolution No. 2009-48  
Revised: December 7, 2015 via Resolution No. 2015-59  
Revised: ??? - 2023