



Policy Number:	5050
Policy Title:	District Reserve Policy

1. The policy establishes reserve funds to minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated District expenses. The adequacy of the target reserve year-end balance ranges and/or annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised accordingly as necessary.

The District shall maintain two types of fund classification: Restricted and Designated.

- Restricted fund includes amounts that are subject to limitations imposed by a third party either a) creditors, grantors, contributors or laws and regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation.
- Designated fund includes amounts that are imposed by the District’s Board to be used for specific purposes, but are not restricted.

The following District fund categories are established:

2. Emergency Fund:

- 2.1. Fund Classification Type: Designated.

- 2.2. Purpose: To fund District fixed asset, operating and maintenance expenses not currently budgeted.

- 2.3. Target Balance: The emergency fund balance will approximate four (4) months of operating costs.

- 2.4. Methodology: The District is required to have sufficient cash flow to meet the next six months of budgeted District operating expenses (Government Code Section 53646(b)(3)). The next six months of projected cash revenues can be included as a source of cash flow to satisfy this requirement. Revenues in excess of reserve contributions and unspent funds from the annual budget resulting from savings or timing differences are also reflected in this fund.

- 2.5. Use of Funds: The funds can only be used with specific Board approval. The use of these funds could be for significant fixed asset acquisitions, repairs or improvements, and/or emergency operating costs.

- 2.6. Contributions: Annual contributions will be designated in the budget process to maintain four months of operating costs.

3. Connection Fee Fund:

- 3.1. Fund Classification Type: Restricted.

- 3.2. Purpose: To segregate connection and related fees in compliance with AB1600.

- 3.3. Target Balance: AB1600 does not designate a target reserve balance. If funds are not used for planned capacity expansion or applied to previous capacity expansion, these fees may be subject to refund.
 - 3.4. Methodology: Connection and pressure mitigation fees generated from new development will be segregated in this reserve. Significant prior capacity expansion absorbed all of the District's connection fee contributions. The District can apply future connection fees to previous years' plant capacity construction.
 - 3.5. Use of Funds: The funds will be used to acquire and enhance system water capacity and delivery. To the extent these reserves do not fund these projects, Emergency Fund may be used to supplement the difference.
 - 3.6. Contributions: Annual contributions will depend upon new construction within the District. Additionally, interest earnings will be imputed on this balance on a monthly basis, using the District's earnings rate on investments.
4. Certificate of Participation (C.O.P.) Fund:
 - 4.1. Fund Classification Type: Restricted.
 - 4.2. Purpose: To segregate certificate of participation (C.O.P.) reserves according to governing documents.
 - 4.3. Target Balance: The proceeds of a C.O.P issue establish the maximum C.O.P reserve available for use.
 - 4.4. Methodology: C.O.P. reserve balances are created upon issuance of debt. These balances are used according to the C.O.P.'s installment purchase agreement.
 - 4.5. Use of Funds: Use of the C.O.P. reserves will be accounted for on a monthly basis, according to the C.O.P's installment purchase agreement.
 - 4.6. Contributions: Contributions will occur upon issuance of C.O.P.'s. Additionally, interest earnings will be imputed on this balance on a monthly basis, using the District's earnings rate on investments.