

TO: Del Paso Manor Water District
FROM: Bartle Wells Associates, Doug Dove
RE: Reserve Fund Policy
DATE: December 19, 2017

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1. **Operating Reserves:** Recommended target funding level is [one year] of operating costs. The District's O&M budget for 2017/18 is \$1,036,143.

Discussion: Operating reserves (also known as working capital) is critical for the smooth and efficient operation of a water district. These reserves are used to cover extraordinary expenses, revenue shortfalls and other emergencies. The District is a relatively small special district with limited diversification and, as such, it should maintain a year of operating costs in reserve. Within this reserve, a rate stabilization fund can also be established.

2. **Debt Service/Bond Covenant Reserves:** Recommended funding level is as required by the bond documents.

Discussion: In 2010, the District issued \$5.6 million in bonds to fund certain capital improvements to the system. The District agreed to establish and maintain a dedicated debt service reserve fund as long as the bonds are outstanding. The reserve requirement for the 2010 bonds is \$371,462.50, which is about one annual debt service payment with interest. The Bond Covenants also require the District have revenue, including reserves, of at least 120% of annual operating expenses and debt service expense (20% over annual operating expenses and debt payment).

3. **System Maintenance/Capital Projects Reserves:** Recommended target funding level varies based on the amount of system maintenance charges collected and the system maintenance projects to be funded from the fund as well as capital funding needs. Recommended target level is a minimum of \$200,000.

Discussion: This reserve segregates the revenues generated by the system maintenance charges from all other funds. These funds are earmarked for system maintenance expenses (including debt service) only. Cash reserves will be required to fund future capital projects that are not funded by grants, loans, bonds or other outside sources. This fund is designed to accumulate funds for future capital projects.