

RESERVE FUND POLICY

Background:

The District has always maintained a prudent amount of funds in the Local Agency Investment Fund to use in the case of emergencies or to stabilize rates for unforeseen expenses. Annual revenues received that are in excess of annual expenses are carried forward to pay for expenses the following year. In 2017, the District proposed a rate increase due to the fact that the “carry forward” and annual revenue would not meet expenses. This rate increase received a majority protest. This created an environment where the District needed to use the reserves to continue operations. During the 2018 rate increase discussions, the Board worked with the consultant and community to establish a reserve policy for operations and maintenance of the District that would be reflected in the new proposed rates. The proposed rate increase was approved June 4, 2018. It is recommended that the Debt Service Reserve be reviewed and amended as necessary when updating the Master Plan. It is also recommended that this policy be updated to include a System Maintenance/Capital Projects Reserve amount when updating the Master Plan and establishing rates for these projects. The following is the proposed Reserve Policy:

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 Del Paso Manor Water District desires to establish 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.

RESERVE FUNDS

Operations & Maintenance (O&M):

The reserve amount for this fund will be six months of operating expense. Currently, it is projected to reach this level within five years. At that time, the District will review and adjust if necessary.

Debt Service/Bond Covenant Reserve:

Recommended funding level is as required by the debt documents. The current debt requires the District to maintain its annual revenues, including reserves, sufficient to cover annual operating expenses and 120% of debt service.

System Maintenance/Capital Projects Reserves:

Keeping a prudent reserve will allow for lower loan/bond rates and may also allow for paying for projects on a “pay-as-you-go” basis. This reserve amount will be determined after updating the Master Plan and developing a rate for these projects.