

RESOLUTION NO. 1063
ADOPTING RESERVE FUND POLICY
NORTH COAST COUNTY WATER DISTRICT

WHEREAS, the North Coast County Water District maintains several reserve funds to ensure that sufficient financial resources are available to satisfy the District's operating, maintenance, capital, and debt service obligations; and

WHEREAS, a Reserve Fund Policy has been developed to demonstrate the District's commitment to fiscal responsibility and prudent financial planning; and

WHEREAS, the Reserve Fund Policy incorporates the best practices for public agency reserve fund policies, such as guidelines and recommendations issued by the California State Auditor, Association of California Water Agencies, and the California Special Districts Association.

NOW, THEREFORE, BE IT RESOLVED by the North Coast County Water District Board of Directors that the Reserve Fund Policy attached to this Resolution is hereby adopted.

PASSED AND ADOPTED this 15th day of January, 2014, by the following vote:

AYES: Directors Burgett, Cosrove, Piccolotti, De Jarnatt and Ash


NOES: None

ABSENT: None

ATTEST:



Secretary of the Board



President, Board of Directors
North Coast County Water District

NORTH COAST COUNTY WATER DISTRICT

RESERVE FUND POLICY

A. 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. In addition, reserves need to be maintained when required by statute, court determinations, contractual agreements or bond resolutions. The North Coast County Water District (District) has established reserve funds for its short and long-term organizational and operational stability. The reserve funds enable the District to minimize significant rate fluctuations due to unforeseen and unexpected cash flow requirements. The District will at all times strive to have sufficient funding available to meet its operating, capital, debt service cost and any other obligations.

Reserve funds will be accumulated and managed in a manner that allows the District to fund costs consistent with the Capital Improvement Plan and the operating needs of the District. The District will maintain a cash reserve position that may be utilized to fund unexpected fluctuations in revenues and operating and capital expenditures. This Reserve Fund Policy is to ensure that the District accumulates, manages, maintains, and uses certain financial resources only for specified purposes.

B. TYPES OF RESERVE FUNDS

The District maintains two types of reserve funds:

1. Restricted Reserves. Restricted reserves are reserves that are restricted by an outside source, such as by statute, court order, or contract.
2. Designated Reserves. Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose.

C. SPECIFIC RESERVE FUNDS

1. The District maintains the following Restricted Reserve funds:

- Debt Service Reserve. The Debt Service Reserve is governed by legal bond covenants and is to be used if the District is unable to meet the required debt service obligation. The bond covenants establish the amount of the debt service reserve by requiring it be maintained at a level sufficient to fund the maximum annual debt service payments, with a target ratio of 1.2X the minimum due. At this time the minimum amount for the reserve fund is \$530,000.
- Storage and Transmission Fees. The Storage and Transmission Fee Reserve is for the purposes of depositing Storage and Transmission Fees from customers and then utilizing those funds to help pay for the growth related component of capital projects in the District's Capital Improvement

Program. The District is required to account for these funds separately and expend these funds only for the purposes pursuant to the Mitigation Fee Act (California Government Code Section 6600, et seq) Storage and Transmission Fee charges are established by resolution by the Board of Directors.

- Compensated Absences. The Compensated Absences reserve is comprised of unpaid vacation and sick leave which accrues as earned. The District's liability for compensated absences is determined annually based on the amount each employee has accrued on an annual basis.
- Retiree COLA Payment. The Retiree COLA Reserve fund is a separate account to pay retiree COLA payments from a "closed" group of retirees at the time the District switched from CIGNA to PERS. The amount of this reserve is established as part of the budget process and is based on the contractual obligation for payments for the upcoming fiscal year.

2. The District maintains the following Designated Reserve funds:

- Emergency Reserve. The Emergency Reserve is used to cover cash flow shortages caused by unexpected events, such as natural disasters, water shortage situations, or other unforeseen expenses. It is the goal of the District to maintain at least 3 months operating expense in the emergency reserve account.
- Capital Reserve. The Capital Reserve is a designated reserve to be used to fund the capital improvement program and for unforeseen capital projects. This fund is used to meet the daily cash needs of "pay as you go" capital expenditures. The District's main source of funding for capital improvements is from cash reserves. These capital improvements are to meet regulatory requirements, system reliability and future demand in the District. Cash flow and adequate cash reserve levels are analyzed annually as part of the budget and long term financial plan. The goal of the Capital Reserve is to be set at 3 months of capital expenses plus one year of the 5 year average historical cost of capital replacement. The 5 year annual average historical cost currently has a calculated level of \$2,000,000. This minimum level goal is set to ensure that there are enough reserves maintained to help minimize the risk from year to year of not having enough cash in reserve to fund unanticipated swings in "pay as you go" capital expenditures.

Funds for planned capital projects may temporarily accumulate due to unanticipated timing issues and will be banked for paying capital expenditures as the expenses are incurred. This fund is reviewed annually as part of the budget process.

- Operating Reserve. The Operating Reserve is a designated reserve to be used only to cover cash flow shortages caused by a short-term, unexpected disruption of anticipated revenue or when expenses become due before the anticipated revenue to pay those expenses is received. It

is the goal of the District to maintain the Operating Reserve at six months of operating expenses.

- OPEB Reserve (Other Post Employment Benefits) - GASB 45. The OPEB Reserve is used to meet the requirements of GASB 45, which includes funding the other post employment benefits such as health care and dental care. The annual amount to be contributed is established by the Board through the Budget process currently based on the actual costs to pay these costs on a pay as you go basis.

D. MANAGEMENT OF RESERVE FUNDS

The Board of Directors, in consultation with the General Manager, will be responsible for managing the reserve funds. The Board will annually review the balance of the reserve funds, work collaboratively with the General Manager to ensure the accuracy of the annual report, and evaluate the goals and purposes of each reserve fund and recommend adjustments as may be necessary or desirable. This review is done in coordination with the annual budget process.