



## RESERVES POLICY

Adopted: May 5, 2021

### I. PURPOSE

The purpose of this Policy is to establish and maintain parameters for creating and maintaining adequate financial reserves for West County Wastewater (WCW).

### II. POLICY OBJECTIVES

Key objectives of prudent financial planning are to ensure sufficient resources for current services and obligations and to prepare for future anticipated funding requirements and unforeseen events.

To meet these objectives, WCW will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Reserve funds will be accumulated and managed in a manner which allows WCW to fund costs consistent with the Capital Improvement Program and long-range financial plans while avoiding significant rate fluctuations due to changes in cash flow requirements. WCW will also maintain cash reserves that may be utilized to fund unexpected fluctuations in revenues and operating/capital expenditures. The level of reserves maintained and policies behind them will be reviewed periodically with the Board of Directors during budget discussions.

#### A. Committed Reserves

##### *Encumbrance Reserve*

This reserve represents the balance of outstanding encumbrances at year end, for which the goods or services have not been received. The reserved fund balance is available for subsequent-year expenditures based on the encumbered appropriation authority carried over to the next fiscal year. The funding level of this reserve will be adjusted annually, at year-end, based on the remaining balance of encumbrances outstanding at the end of the fiscal year.

##### *Insurance Fund Reserve*

The Insurance Fund Reserve is to provide for uninsured property losses to WCW facilities and to provide sufficient funds to initiate repair and recovery of damage to WCW facilities in advance of FEMA or other reimbursement. The reserve may be

used to pay uninsured/ uninsurable property losses and/or to cover all or a portion of WCW paid expenses necessary to initiate immediate service restoration efforts. It is anticipated that in most cases, the reserves will be replenished by reimbursement from FEMA or other sources. The reserve funding level is \$200,000, adjusted for outstanding reimbursements.

B. Restricted Reserve

*Debt Reserves*

The purpose of this reserve is to meet the requirements of WCW 's funding agreements with the California Water Resources Control Board State Revolving Fund loan program or other debt agreements. The balance shall be equal to the amount specified in the State Revolving Fund (SRF) or other debt agreements. The funds shall remain in the reserve until the loan or other debt is paid off.

C. Working Capital Reserves

*Operating Reserve*

This reserve serves to ensure adequate working capital for cash flow needs for operating needs that arise during the year. The minimum balance shall be 90 days of operating expenditures. The target reserve balance is six months of operating expenditures.

These funds will be used to pay for expenditures according to budget and expenditure authority. Annual reserves will vary, depending upon current year expenditure requirements. Interest earnings will be accrued on and added to fund balance, using WCW 's earnings rate on investments.

*Capital Program Reserve*

This reserve serves to ensure adequate funds cash flow for capital projects. WCW shall have sufficient cash flow to meet six months of budgeted WCW cash-funded capital expenditures.

These funds will be used to pay for expenditures according to budget and expenditure authority. Annual reserves will vary, depending upon current year expenditure requirements. Interest earnings will be accrued on and added to fund balance, using WCW 's earnings rate on investments.

*Emergency Reserve*

This reserve is for emergency repairs. The target funding level is 7% of annual operating expenditures. The Emergency Reserve would be used to cover unanticipated costs due to catastrophic losses from natural disasters or accidents such as earthquakes, fires, pipeline explosions, flooding or other major calamities.

*Equipment Replacement Reserve*

This reserve is used to cover the replacement value of vehicles and equipment of WCW. Deposits into the Equipment Replacement Reserve will be made each fiscal year based on the annual depreciation value calculated for the equipment or vehicle as allowed and authorized by the Operating Budget adopted by the Board of Directors. The target value shall be 80% of the full replacement costs of the

equipment and vehicles.

*Excess Funds*

Funds in excess of the reserves above should be earmarked for paying down liabilities. Given that liabilities are expenses that have been deferred, it is important to set aside surplus funds to pay down these liabilities over time. Liabilities in need of continued funding is the CalPERS pension unfunded accrued liability and the Other Post Employee Benefits (OPEB) liability.

III. SCOPE AND DELEGATION OF AUTHORITY

The General Manager, or designee, acting as WCW Treasurer, is responsible for managing reserves in accordance with this policy. Periodically, the Board will evaluate the goals and purposes of each reserve and adopt policy changes as may be necessary or desirable.

The Board of Directors may authorize use of reserves. Authorization to use the funds will be consistent with applicable WCW policies and procedures. The General Manager or designee will provide reserves levels as part of the budget process.

The General Manager or designee shall have the authority to make non-substantive updates to this Policy as needed.

IV. DEFINITIONS

As used in this policy, the following words and phrases shall have the following definitions.

*Committed Reserves*: funds for which uses are not constrained by externally imposed restrictions but are specified by, and are at the discretion of, the Board of Directors.

*Encumbrance*: a financial tool used to reflect commitments in the accounting system to recognize future commitments of resources prior to paying an receiving the goods or service.

*Fund Balance*: the moneys remaining at the end of the fiscal year in each identified fund for which no uses are specified.

*Restricted Reserves*: funds for which uses are constrained by either (a) externally imposed obligations with creditors, grantors, contributors, or laws/regulations; or (b) state or federal laws.

*Working Capital*: Liquid portion of the enterprise fund that is available as cash to serve as a buffer to meet current and future obligations.