

**ALAMEDA COUNTY WATER DISTRICT**  
**Statement of Reserve Fund Policy**  
**June 8, 2023**

POLICY

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service cost needs. Another critical aspect of fiscal responsibility is to not only anticipate and prepare for future funding requirements for ongoing operations and maintenance expenses and capital expenditures, but also to prepare for unforeseen disasters and other unforeseen events. In addition, reserves need to be maintained when defined by statute, court determinations, contractual agreements, or bond resolutions. The Alameda County Water 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 which allows the District to fund costs consistent with the Capital Improvement Plan, the Long Range Financial Planning Model, and the Integrated Resource Management Plan while avoiding significant rate fluctuations due to changes in cash flow requirements. The District will maintain a cash reserve position that may be utilized to fund unexpected fluctuations in revenues and operating and capital expenditures. In addition, annual net revenue levels will be maintained to ensure that the Debt Service Coverage Ratio stays at or above the target rate of 2.0 while also adequately funding all cash reserves at their designated minimums and targets. Staff will review with the Board of Directors, during the annual budget review, the level of reserve funds needed.

DEFINITIONS

The District maintains two types of reserve funds:

Restricted Reserves

Restricted reserves are reserves that are restricted by an outside source, such as by statute, court determination, or contract.

Designated Reserves

Designated reserves are reserves that are established and set aside to be used for a specific, Board designated purpose.

RESTRICTED RESERVES

Facilities Improvement Fund Reserve

The Facilities Improvement Fund Reserve is a restricted reserve, required by California Government Code Section §66013, for the purposes of depositing Facilities Connection Charges from customers and then utilizing the funds to help pay for the growth related component of capital projects in the District's Capital Improvement Program. The Facilities Connection Charge amount is reviewed regularly and has a cost basis calculated on the cost of growth capital in the 25-Year Capital Improvement Plan.

The Facilities Improvement Fund Reserve may make loans to the Installer's Reimbursement Fund Reserve as needed to ensure an adequate reserve balance to reimburse developers for eligible projects. Notwithstanding the authorization to make loans, funds in the Facilities Improvement Fund Reserve and Installer's Reimbursement Fund Reserve shall continue to be separately accounted for to ensure the funds are not comingled. Any loans shall identify the date that the loan will be repaid and shall be repaid to the Facilities Improvement Fund Reserve with interest calculated at the rate paid by the Local Agency Investment Fund.

#### Installer's Reimbursement Fund Reserve

The Installer's Reimbursement Fund Reserve is a restricted reserve for the purpose of depositing Facilities Reimbursement Charges from developers. The funds are used to reimburse developers for the marginal cost of building over-sized mains or other infrastructure that supports growth and that exceeds the requirements to serve their development, and is built at the direction of the District. The Facilities Reimbursement Charge is reviewed regularly and has a cost basis calculated on the cost of anticipated developer reimbursements.

#### Management Retirement Bonus Reserve

The Management Retirement Bonus Reserve is a restricted reserve established by the Board of Directors to fund the total estimated remaining amount of future bonuses for any current employees that meet the eligibility requirements of the Management Retirement Bonus program. This program was established for employees hired on or before December 31, 2000. Employees hired on or after January 1, 2001 are not eligible.

### DESIGNATED RESERVES

#### Operations & Maintenance (O&M) Reserve

The O&M Reserve is a designated reserve, which has been established by the Board of Directors to maintain a level of funding to meet the daily cash needs for ongoing operations and maintenance of the water system. This also provides funds to ensure District operations are not affected by the timing of planned expenses, an unexpected expense, or disruption in revenue.

The O&M Reserve has an established minimum target of three months of water revenues.

#### Capital Reserve

The Capital Reserve is a designated reserve, which has been established by the Board of Directors to maintain a minimum level of funding to meet the cash flow requirements of the Capital Improvement Program and fund up to one-year of capital improvements. The District's main current source of funding for capital improvements is from water revenues. Capital improvements are designed to meet regulatory requirements, improve system reliability, and address future water demand in the District and are included in the 25-Year Capital Improvement Program and Long Range Financial Planning Model, both of which are reviewed by the Board of Directors each fiscal year.

The Capital Reserve has an established minimum target of one year of water system

depreciation. This total minimum level of capital cash reserves is to ensure there are sufficient reserves maintained to help minimize the risk from year to year of not having enough cash in reserve to fund unanticipated swings in “pay-go” capital expenditures or to fund capital investments to maintain the value of the water system during a decline in revenues. However, the funding in the Capital Reserve will be revised annually based on the prior year’s depreciation and will be adjusted to account for unanticipated timing issues that may affect the reserve balance.

#### Capital Projects Sinking Fund

Funds for planned capital projects may temporarily accumulate due to unanticipated timing issues and will be retained for paying capital expenditures as the expenses are incurred. Due to the timing of capital projects, the Capital Projects Sinking Fund is utilized to account for resources specifically designated for future capital projects. The annual Capital Improvement Program appropriations are drawn from this fund as needed.

The Capital Projects Sinking Fund has an established target equal to the difference between the current General Fund ending balance and lowest ending balance within the next five years as presented in the Financial Planning Model.

#### Operations Contingency Fund

The Operations Contingency Fund is established to account for General Fund balances that are not required to fund other reserves and the Capital Projects Sinking Fund. These funds are used to pay for one-time projects, smooth out rate increases, pay down unfunded liabilities, or provide for unforeseen costs of an unusual or extraordinary nature that could not be planned for in the budget process.

#### Rate Stabilization Reserve

The Rate Stabilization Reserve is a designated reserve, which at the direction of the Board of Directors is maintained at an amount equal to six months of variable water sales – the difference in revenue that would result from using the lowest water usage year versus the most recent year or a typical year based on current commodity rates.

These reserve funds may be designated to address revenue shortfalls resulting from lower than anticipated water sales due to unusually wet weather, conservation in response to a water shortage emergency, or any other reason that may cause lower water sales. Rate Stabilization Reserve funds will be replenished as needed during years of higher than anticipated water sales. The purpose of this reserve is to moderate the need for rate increases resulting from lower water demand.

#### Emergency Reserve

The Emergency Reserve is a designated reserve, which at the direction of the Board of Directors, is to be maintained at a target level of \$10 million. This is the calculated additional amount of funds needed to purchase water in a year of adverse water conditions. The Emergency Reserve is to be used only with the authorization of the Board of Directors in the event of an unforeseen event such as a natural disaster, water shortage emergency, or other unanticipated adverse situation.

In addition to the Emergency Reserve, the District retains a \$10 million emergency line of credit that is available to the District during a declared state of emergency to finance emergency response activities if District reserves are insufficient. The line of credit can be increased if needed to respond to a major disaster.

#### RESERVE POLICY REVIEW

The provisions of this Reserve Policy will be reviewed by the Board of Directors on an annual basis in conjunction with the review and approval of the District's budget.