RESOLUTION NO. 2327

RESOLUTION OF THE BOARD OF DIRECTORS OF THE MONTECITO WATER DISTRICT ADOPTING A RESERVE POLICY FOR FISCAL YEAR 2027

WHEREAS, the mission of Montecito Water District ("District") is to provide an adequate and reliable supply of high-quality water to the residents of the Montecito and Summerland communities at the most reasonable cost; and

WHEREAS, California Water Code Section 31000 grants the District express and implied powers to carry out its mission; and

WHEREAS, California Water Code Section 31001 authorizes the District generally to perform all acts necessary to carry out its mission; and

WHEREAS, California Water Code Section 31007 requires that rates and charges be collected and fixed so as to yield an amount sufficient to: pay operating expenses; provide for repairs and depreciation of works owned or operated by the District; pay interest on bonded debt; and provide a fund for the payment of the principal of bonded debt as it becomes due; and

WHEREAS, the adoption of an updated reserve policy will assist the District in accomplishing its general mission, and fulfilling the requirements of the Water Code;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Montecito Water District hereby adopts the "Montecito Water District Reserve Policy" for Fiscal Year 2027 that is attached to this Resolution as Exhibit "A" and incorporated herein by this reference.

PASSED AND ADOPTED by the Board of Directors of the Montecito Water District this 23rd of June 2026 by the following roll call vote:

AYES: Coates, Goebel, Hayman, Plough, Wicks
NOES:
ABSENT:
ABSTAIN:

APPROVED:

Brian Goebel, Board President

ATTEST:

Nicholas Turner, Secretary

Exhibit "A"
To Resolution No. 2327

MONTECITO WATER DISTRICT
RESERVE POLICY

For
Fiscal Year 2027

Adopted by the
Board of Directors
June 23, 2026

Montecito Water District

STATEMENT OF RESERVE POLICY

The mission of Montecito Water District is to provide an adequate and reliable supply of high-quality water to the residents of the Montecito and Summerland communities at the most reasonable cost. In addition to supplying high-quality water, the Board is also charged with responsibility for the construction, operation, maintenance, repair, and replacement of facilities to transport and deliver that water to District customers, and for the collection and accumulation of revenues necessary to accomplish these purposes. The reserve amounts stated in this Reserve Policy ("Reserve Policy") reflect the projected activity as of July 1, 2026, for FY 2027 and will be updated annually or as appropriate.

POLICY STATEMENT

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Montecito Water District (District) desires to identify, and provide a calculation methodology to maintain, an appropriate level of reserve funds to meet the necessary existing and future needs of the District. The District's Board of Directors realize the importance of reserves in providing reliable service to its customers, financing unanticipated capital projects, and funding responses to emergencies, should they arise. To this extent, the District will at all times strive to have sufficient funding available to meet its operating, unanticipated capital, emergency, and debt service obligations, as well as to avoid significant rate fluctuations due to changes in cash flow requirements.

The Board will designate specific reserve funds and maintain minimum reserve balances consistent with statutory obligations that it has determined to be in the best interest of the District. The policy directives outlined in this Reserve Policy are intended to ensure that the District has sufficient funds to meet current and future needs. The Board reviews the types, as well as the amounts, of reserve funds annually. Determinations to continue existing reserve funds, discontinue existing reserve funds, or establish new reserve funds, are based on the following criteria:

- Purpose of the reserve.
- Availability and source of funds to continue, replenish or establish the reserve.
- Operating expenditure levels approved within the annual budget process.
- Future capital expenditure and debt service requirements of the District.
- Board approval of the Reserve Policy.

The District recognizes the importance of operating the District with a sound business plan in place that provides for unanticipated, or emergency costs should they arise within a budgeted fiscal year.

It is the Board's intent through this Reserve Policy to describe how and why specific reserves are established and maintained by the District, and to provide the District's customers with assurance that reserve balances will be maintained at prudent and fiscally responsible levels.

DEFINITIONS

This Reserve Policy describes the reserve funds to be maintained in connection with:

I. RESTRICTED FUNDS: Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use. These funds are specifically governed by a written contract with the District or outlined within the debt covenants of a debt financing.

II. UNRESTRICTED FUNDS: These funds have no externally imposed use restrictions. The use of Unrestricted Funds is at the discretion of the District's Board of Directors. Unrestricted Funds may be designated for a specific purpose, which would be determined by the Board. The Board also has the authority to redirect the use of these funds as the District's needs change.

The Unrestricted funds can further be subdivided into "Committed", "Assigned" and "Unassigned" funds. Committed funds refer to the fund balance amounts that have constraints imposed by formal action of the District's Board of Directors. Once adopted, the limitation imposed remains in effect until additional action is taken (a motion and/or the adoption of a new resolution) to remove or reverse the limitation. Assigned funds refer to fund balance amounts that are constrained by the Board's intent to be used for a specific purpose but are neither restricted nor committed. Unassigned funds refer to fund balances that are not Restricted, Committed, or Assigned.

To summarize:

- **Restricted Fund Balance Amounts** – Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.
- **Board Committed Fund Balance Amounts** - Fund balance amounts that have constraints imposed by formal action of the District's Board of Directors.
- **Board Assigned Fund Balance Amounts** – Fund balance amounts that are constrained by the Board's intent to be used for a specific purpose.
- **Unassigned Fund Balance Amounts** – Fund balance that is not restricted, committed, nor assigned.

GENERAL PROVISIONS

The District will maintain its operating and capital funds in designated accounts in a manner that ensures its financial soundness and provides transparency to its customers. The fund balances are

considered the minimum necessary to maintain the District's fiscal strength and flexibility and adequately provide for:

- Compliance with applicable statutory requirements.
- Financing of unanticipated or unplanned capital projects.
- Cash flow requirements.
- Economic uncertainties and other financial hardships or downturns in the economy.
- Contingencies arising from hydrological, meteorological, or man-made changes or emergencies.

Through a variety of policy documents and plans, the Board of Directors has set forth a number of long-term goals for the District. The fundamental purpose of the District's policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so. The Board will continually evaluate the implementation of these policy documents and plans to ascertain adequate reserve fund balances are meeting the goals outlined in this Reserve Policy.

The District has established and will maintain the reserve funds outlined in the following sections. A principal tenet of the District's Reserve Policy shall be the generation of interest income on accumulated cash balances. Unless otherwise stated in this Reserve Policy, interest derived from reserve balances will be considered unrestricted and unassigned in nature. Reserve balances will be reviewed by the General Manager and/or Business Manager on a monthly basis, as well as annually during the budget review process, in order to determine how reserve fund balances compare with the budgeted projections and how they measure against the goals outlined in this Reserve Policy. The minimum established for each reserve fund represents the baseline financial condition that is acceptable to the District from risk and long-range financial planning perspectives. Maintaining reserve funds at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various funding alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to rates, loans and grants, debt financing, investment of funds, and levels of capital expenditures.

The Board shall approve any reallocation of funds or any transfers among reserve funds.

SPECIFIC PROVISIONS

The District maintains the following reserve funds and respective target levels:

1. **Restricted Reserves**

   (a) CCWA Rate Coverage Reserve.

   These are reserve funds held by CCWA that approximate 25% of the annual charge by CCWA to the District for the fixed and variable charges from the State Water Project, in addition to the proportionate share of CCWA's administrative costs. The CCWA Rate Coverage Reserve is established in the amount of **$1,115,000**.

(b) WSA Debt Service Coverage Deposit.

These reserve funds held by the City of Santa Barbara represent an amount equal to the District's portion of the City's debt service coverage deposit required pursuant to the City's State Revolving Fund loan for the desalination plant. The WSA Debt Service Coverage Deposit is in the amount of **$481,580**.

(c) WSA Debt Service Reserve Deposit.

These reserve funds held by the City of Santa Barbara represent the District's portion of the debt service reserve deposit required pursuant to the City's State revolving fund loan for the desalination plant. The WSA Debt Service Reserve Deposit at the end of FY2025 is in the amount of **$1,629,962**.

(d) Thomas Fire/Debris Flow CalOES/FEMA Reserve.

Pursuant to the settlement between the District and Southern California Edison in connection with damages caused by the 2017 Thomas Fire, a portion of the settlement (referred to as "holdback funds") was held in escrow until reconciliation of project funding was complete. The reconciliation determined **$136,625** is due back to CalOES. These funds will remain in reserve until their return is requested by CalOES/FEMA.

2. Unrestricted Reserves

Board Committed Funds

The District's Board Committed Funds consist of a Rate Stabilization Fund, Operating Reserve, Capital and Emergency Reserve, and SWP Prefunding Reserve. The District's Board Committed Funds, excluding the SWP Prefunding Reserve, consist of a minimum balance equivalent to 90 days cash on hand and a targeted balance range of 160 - 200 days cash on hand. Funds appropriated to the Board Committed Funds may be invested in the same manner as other District funds, and the earnings thereon shall be credited to the Unrestricted Fund balance.

(a) Rate Stabilization Fund. **Minimum: $2,300,000**

The Rate Stabilization Fund is comprised of cash reserves that can mitigate the impacts of operational, debt service and capital expenditure fluctuations year over year. Reserves can be transferred out of the Rate Stabilization Fund and used to help meet debt service coverage requirements. Rate Stabilization Funds can help smooth revenue variability and ensure adequate fiscal resources during periods that might otherwise require rate increases. The minimum fund balance represents 30 days cash on hand, or approximately 8 percent of the District's annual operating costs plus debt service payments. The target fund balance is 55 days, or approximately 15 percent of the District's annual operating costs plus debt service payments.

The District may withdraw all or a portion of these funds and transfer such amounts to be accounted for as revenues in the calculation of debt service coverage. Any transfers in or out of the Rate Stabilization Fund shall be in accordance with the District's legal requirements and accounted for appropriately. All retained earnings from water rates not allocated to any other funds may be placed in the Rate Stabilization Fund, subject to the transfer mechanics outlined herewith pursuant to the District's legal requirements.

(b) Operating Reserve. **Minimum: $3,800,000**

The Operating Reserve may be utilized to pay the cost of operating the District's system, including unanticipated costs associated with operations and to meet routine cash flow needs. This minimum fund balance represents 50-60 days cash on hand, or approximately 14 - 16 percent of the District's annual operating costs plus debt service payments and the target fund balance is 75 days, or approximately 20 percent of the District's annual operating costs plus debt service payments.

The District may withdraw all or a portion of these funds to pay operating expenses, but such amounts are not accounted for as revenues and not included in the calculation of debt service coverage.

(c) Capital and Emergency Reserve. **Minimum: $500,000**

The Capital and Emergency Reserve is comprised of reserves used for the funding of new capital assets or the replacement of capital assets when they reach the end of their useful life and in the event of an emergency in which the District's infrastructure is severely damaged. The District may use the funds herein for either capital or emergency purposes. This minimum fund balance represents $500,000 to cover emergency needs. The targeted balance represents the planned pay-go capital costs plus $500,000 emergency funds. The District plans to use funds in this reserve on planned capital projects throughout the year pursuant to the Budget.

(d) SWP Prefunding Reserve. **$4,651,015**

The State Water Project (SWP) Prefunding Reserve is used to fund the District's annual SWP fixed payment. The reserve is funded through current rates and funds the subsequent fiscal years SWP payment. The SWP payment is for the District's proportionate share of Central Coast Water Authority's SWP fixed payments, which includes California Department of Water Resources fixed payments. The District's SWP fixed payment for FY2026, as budgeted is $4,280,974 and the monthly SWP prefunding amount is $356,747.

Board Assigned Funds

No Board Assigned Funds are established for FY 2027.

Board Unassigned Funds

The Board desires to allocate retained earnings not allocated to any other fund, i.e., unassigned funds, to the Operating Reserve and to maintain a Board Unassigned Funds balance of $0.

3. **Additional Reserves**

In addition to the reserves identified above, the Board may approve the creation of such additional reserve accounts and/or funds, whether temporary or permanent, as the Board deems necessary or appropriate, by amendment to this resolution or by simple motion. In such event, the Board will identify the purposes for which such additional reserve accounts and/or funds are created, provide guidance as to the amount which the District should endeavor to maintain in such reserve accounts and/or funds, and establish the limits and restrictions pertaining thereto.

ANNUAL REPORTS

Each year the District's General Manager or Business Manager shall provide the Board of Directors with a report indicating the beginning and ending balance for each of the Restricted and Unrestricted Reserves, or accounts created pursuant to this Reserve Policy, and the purposes for which expenditures have been made therefrom and shall make recommendations to replenish or augment fund or account balances as appropriate.