

RESOLUTION NO. 2155

**RESOLUTION OF THE BOARD OF DIRECTORS OF
MONTECITO WATER DISTRICT
ADOPTING A RESERVE POLICY**

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

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

WHEREAS, 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 the interest on bonded debt; and pay principal of the bonded debt as it becomes due; and

WHEREAS, the adoption of a 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" that is attached to this Resolution, and incorporated herein by this reference.

PASSED AND ADOPTED by the Board of Directors of the Montecito Water District this 28th of June 2017 by the following roll call vote:

AYES: Directors Frye, Morgan, Plough, Shaikewitz, and Wicks

NOES: None

ABSENT: None

ABSTAIN: None

APPROVED:


Richard Shaikewitz, President

ATTEST:


Nicholas Turner, Secretary



MONTECITO WATER DISTRICT RESERVE POLICY

FY 2017-18

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 document reflect the projected activity for FY 2017/18 and will be updated annually.

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 and/or maintained level of all existing and future needs of the District where reserve funds are required and/or necessary. The District's Board of Directors realize the importance of reserves in providing reliable service to its customers, financing unanticipated capital projects, and the funding of 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 may 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 document 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. Considerations to continue or establish new reserve funds is determined 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 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 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 a similar action is taken (the adoption of a new resolution) to remove or reverse the limitation. Assigned funds refer to the 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 the fund balance that is not restricted, committed nor assigned.

To summarize:

- ◆ **Restricted Reserves** – Funds that are designated for a particular purpose and whose use is restricted to only that purpose. The Restricted Reserves consist of the 2010A Revenue COP Bond reserve, CCWA Rate Coverage Reserve and the DWR Ortega reserve.
- ◆ **Board Committed Reserves** - Funds that are designated to satisfy limitations set by external requirements established by creditors, grant agencies or contributors, or law. A Board

“Committed” reserve has been identified to pay costs associated with the class action lawsuit against Montecito Water District.

- ◆ **Board Assigned Reserves** – Funds that are designated for the purpose of funding items such as new capital facilities, repair or replacement of existing facilities, and general operating reserves designated for a specific purpose and use by the Board. Board Assigned reserves are comprised of the following reserve accounts: “Reserve for Operations”, “Reserve for Emergencies” and “Reserve for Unanticipated or Unplanned Capital Repair and/or Replacement”.
- ◆ **Unassigned Reserves** – Funds that have accumulated as a result of operations that are not designated to be set aside for any particular purpose.

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, including the District’s CIP and Rate Model, 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. An analysis will be conducted annually on the District’s Capital Improvement Program (CIP) to ascertain adequate reserve fund balances are meeting the goals outlined in this 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

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 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

MWD will maintain the following reserve funds and respective target levels:

1. Restricted Reserves.

(a) 2010A Revenue COP Bond Reserve – These are reserve funds held by the bond trustees necessary to comply with the bond covenants and loan agreements established at the time of issuance of the revenue certificates of participation. This originates from the 1998 bond issuance for CIP, which was refinanced in 2010 and have a maturity date of 2027. This reserve approximates the annual principal and interest payment on the COP. \$1,455,615

(b) 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. \$1,425,135

(c) DWR Ortega Reserve – These are reserve funds held by DWR as part of Contract #SRF99CX121. This reserve approximates the annual principal and interest payment on the loan relating to the construction of the roof on the Ortega Reservoir. \$590,433

2. Unrestricted Reserves.

(a) **Reserve for Litigation.** A committed “Reserve for Litigation” is hereby created for the District, to which the Board may appropriate unrestricted District revenues. The Reserve for Litigation will be utilized to pay the costs associated with the litigation against the District. Per the 2017/18 budget, the Board establishes an amount of \$1,775,000

(b) **Reserve for Operations.** An assigned “Reserve for Operations” is hereby created for the District, to which the Board may appropriate unrestricted District revenues. The Reserve for Operations may be utilized to pay the cost of operating the District’s general system including unanticipated costs associated with operations. This reserve is designated by the Board to maintain working capital for operations and to meet routine cash flow needs. The District shall endeavor to maintain in the “Reserve for Operations” an amount sufficient to pay for a minimum of 90 days of normal operations of the District excluding depreciation expense and payments to DWR, as reflected in the annual audit of the District presented to the Board each year. However, the funds appropriated to the “Reserve for Operations” may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to the “Reserve for Operations” may be invested in the same manner as other District funds, and the earnings thereon shall be credited to the District’s unrestricted fund balance. The District’s “Five Year Financial Plan” produced by Black and Veatch suggests a reserve amount of \$3.0 million. Per the 2017/18 budget, the Board establishes an amount of **\$3,400,000**

(c) **Reserve for Emergencies.** An assigned “Reserve for Emergencies” is hereby created, to which the Board may appropriate unrestricted District revenues. The “Reserve for Emergencies” may be utilized in the event of a hydrological, meteorological or man-made emergency in which the District’s infrastructure is severely damaged. While the District will strive to have adequate insurance coverage and protection, it may be necessary for the District to have cash available in the interim. The funds appropriated to the “Reserve for Emergencies” may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to the “Reserve for Emergencies” may be invested in the same manner as other District funds, and the earnings thereon shall be credited to the District’s unrestricted fund balance. The “Five Year Financial Plan” produced by Black and Veatch suggested a reserve amount of \$1.0 million. Per the 2017/18 budget, the Board establishes an amount of **\$1,000,000**

(d) **Reserve for Unanticipated or Unplanned Capital Repair & Replacement.** An assigned “Reserve for Unanticipated or Unplanned Capital Repair & Replacement” is hereby created to which the Board may appropriate unrestricted District revenues. The “Reserve for Unanticipated or Unplanned Capital Repair & Replacement” may be utilized to construct or procure new infrastructure for the District; expenditures include but are not limited to transmission and distribution capital assets, buildings, pumping equipment, technical equipment, and transportation equipment. Per the 2017/18 budget, the Board establishes an amount of **\$1,000,000**

3. Additional Reserves

In addition to the reserves identified above, the Board may approve the creation of such additional reserve accounts, 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 are created, provide guidance as to the amount which the District should endeavor to maintain in each such fund or account 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 reserve funds or accounts created pursuant to this 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.