

Section 5.03.220
Cash Reserves Policy

5.03.220.01 Purpose

The purpose of the RMWD Reserve Policy is to ensure that the District will at all times have sufficient funding available to meet the operating, capital, and debt service cost obligations, as well as to provide for stable water and wastewater rates to minimize rate shock on customers. Adequate reserves and sound financial policies promote RMWD's bond ratings in the capital markets and lower the cost of capital, provide financing flexibility, as well as help avoid potentially restrictive debt covenants. This Reserve Policy shall cover all reserve funds of the District.

5.03.220.02 Categories, Funding Timeframe Goal, and Level of Priority

The following comprise the main categories of reserves, their respective funding goal timeframes, and level of prioritization to receive unrestricted water and wastewater revenue to meet their reserve targets.

Categories –

1. **Liquidity** (Minimum Target)– these reserves are essential to the basic functioning of the District as they are intended to meet basic cash flow requirements to meet operating and debt obligations. They receive the highest priority of being funded by net revenues.
 - a. Funding Timeframe Goal – Within 3 years.
 - b. Actions for consideration to meet timeframe goal – budget very conservatively, retain unexpected savings or additional revenues, raise liquidity through debt if fiscally prudent, obtain additional non-rate revenues, and strongly consider raising rates.
 - c. Reserves in this category in order of priority:
 - i. Working Capital (Operating) Reserve
 - ii. Debt Service Reserve
2. **Stabilization** (Target) – these reserves address certain and frequent risks of higher than anticipated expenses, or lower than anticipated revenues, to provide for stable rates and smooth rate transitions when overall rate requirements are increasing over a multi-year period. These reserves receive the next highest overall priority in being funded by net revenues.
 - a. Funding Timeframe Goal – Within 10 years.
 - b. Actions for consideration to meet timeframe goal – budget conservatively, retain unexpected savings or additional revenues, and consider raising rates, if necessary.
 - c. Reserves in this category in order of priority:
 - i. Rate Stabilization Reserve
 - ii. Capital Replacement Reserve
3. **Contingency** (Maximum Target) – these reserves address known significant but less frequent risks, such as major disasters, or projects where a dedicated funding set aside is desired. These reserves receive the lowest priority for funding,
 - a. Funding Timeframe Goal – Generally within 20 years.
 - b. Actions for consideration to meet timeframe goal – These reserves are discretionary in nature and are usually funded by the intentional retention of unexpected savings or additional revenues.
 - c. Reserves in this category in order of priority:
 - i. Special Project Reserve (if any)
 - ii. Emergency Reserve

5.03.220.03 Administrative Requirements

The District's Chief Financial Officer and/or the General Manager will present the status of the cash reserves and a plan to reach reserve targets within Funding Timeframe Goals at least annually to the Budget and Finance Committee and the Board of Directors, as part of the budget review process.

Available cash reserves for the sake of this policy shall constitute total cash and investments not externally restricted for other purposes. Each reserve target listed in this Policy is calculated and applicable for both Water and Wastewater Funds.

Restricted reserves, such as debt service reserves held by a trustee, may be established from time to time and are set based on the terms of contracts with funding providers, or other externally imposed restrictions as applicable, and are otherwise governed by those agreements or external restrictions, separate than this Policy.

5.03.220.04 Working Capital (Operating) Reserves

This reserve target is intended to provide funding for short-term cash flow needs from timing variances between revenues and expenses and provides liquidity to fund its operating and capital obligations. The target is set at 3 months of budgeted operating expenses, not including depreciation, for the current fiscal year. It is funded through net operating revenues sourced primarily from monthly rates and charges.

5.03.220.05 Debt Service Reserve (unrestricted)

This reserve target is intended to ensure there is sufficient funding for the District to be able to fully pay its debt service obligations in any given year. The target is set at one year of debt service (principal and interest) for all external loans and outstanding bonds, less any restricted funds available to pay debt service that are held in trust according to debt agreements. The reserve target calculation for variable interest debt may use the rate used in the development of the budget or the most current projected probable rate. It is funded through net operating revenues sourced primarily from monthly rates and charges.

5.03.220.06 Rate Stabilization Reserve

This reserve target is intended to provide funding for unbudgeted higher expenses (operating and capital) or lower than anticipated revenues to enable stable rates and smoother year-to-year rate transitions. The target is set at 10% of current budgeted revenues, excluding grants and capacity fees or other non-reoccurring type revenues. It is funded through net operating revenues sourced primarily from monthly rates and charges.

5.03.220.07 Capital Facility Replacement Reserve

This reserve target is intended to fund unanticipated capital asset replacements, capital project cost increases, and advancing the implementation timing of planned capital projects, if prudent. The target is set at 1 year of depreciation on the best available estimate of the current capital asset replacement value assuming an average useful life of assets of 75 years. Capital replacement reserves are primarily funded by capacity fees, and if insufficient, then net operating revenues.

5.03.220.08 Special Project Reserve

This reserve target is intended as a mechanism to set aside funding for future major capital improvement projects or initiatives that would require significant rate increases or an undesired debt burden. The target is based on the cumulative total funding targets for any applicable specific projects or initiatives as included in the adopted budget or approved by separate Board action. It is funded through net operating revenues sourced primarily from monthly rates and charges, or other sources as determined by the Board.

5.03.220.09 Emergency (Disaster) Reserve

This reserve target is intended to provide initial liquidity to respond to major emergencies, such as earthquakes or wildfires, until other funding can be secured (i.e. FEMA, debt financing, insurance proceeds, etc.), or cover the costs of these disaster responses, in whole or part. The target is set at 1 year of depreciation on best available estimate of the current capital asset replacement value assuming an average useful life of assets of 75 years. It is funded through net operating revenues sourced primarily from monthly rates and charges.

5.03.220.10 Facility Expansion Reserve

Facility Expansion Reserves are funded by the cash collected for water or wastewater capacity fees assessed for the purpose of future expansion or improvement of water system benefitting new customers. It does not have a specific target and is funded purely by the portion of collected capacity fees for this purpose and applicable interest revenues. Any funds in this reserve are accounted for separately than the Liquidity, Stabilization, or Contingency reserve targets outlined in this Policy.