



Monterey One Water Budget Reserve Policy

TYPES OF RESERVES

Operating Reserve 30% of Operating Budget (Excludes Depts 50-57)

Contingency Reserve 20% of Operating Budget (Excludes 50-57)

Capital Project Reserves
In 5 Years
100% of Annual Average of the 10 Year Capital Budget and 200% within 10 Years

Debt Service Reserve
Meets Debt Covenants

Purpose

This policy is developed to consider the minimum level necessary to maintain and improve the Agency's credit rating and to adequately provide for:

1. Economic uncertainties or downturns in the economy
2. Local disasters or catastrophic events
3. Future debt or capital obligations
4. Cash flow requirements and Legal requirements

Reserve Balances

The Agency shall maintain reserve funds at the following minimum reserve level. All amounts in excess of reserves shall be considered to be working capital and subject to appropriation with Board approval.

Wastewater Operating Reserve

The Wastewater operating reserves will be maintained at a minimum of 30% of the operating budget (excluding Reclamation Budgets 50-57, which are fully reimbursed by the Monterey County Water Resources Agency). This reserve will be primarily used to assist with cash flow and will only go below the minimum in the case of a short-term financial event.

Wastewater Contingency/Emergency Reserve

The Wastewater Contingency/Emergency reserve shall be funded at a minimum of 20% of the operating budget (excluding Reclamation Budgets 50-57, which are fully reimbursed by the Monterey County Water Resources Agency). This reserve be accessed in the event of an emergency, litigation, or equipment failure. This reserve may also be used for budgetary stabilization purposes as a result of significant costs that were outside of the approved rate structure.

Capital Program Reserves

Within 5 fiscal years, the Capital Program reserve will be funded at a minimum of 100% of the annual average of the 10 year capital program budget (excluding capital projects that are fully funded through debt proceeds, grants or by an outside agency) and at a minimum of 200% in ten fiscal years. The Capital Program Reserves will be used to support any sudden negative budgetary impacts in any year due to unforeseen capital costs and emergency capital needs.

Debt Service Reserves

Debt service reserves shall meet or exceed all rate covenant requirements.



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KEY FACTS

Board Approval Required for Use of Reserves, to be replenished in three years

Ongoing costs should not be reliant on one-time revenues

The annual budget shall allocate $\geq 1\%$ of the total as a budgeted contingency

Water Rates shall cover Operations, 10 year CIP, bond coverage requirements and fund early retirement of pension debt and other debt

Reserve Balances (Continued)

In support of the above, detailed replacement schedules shall be maintained for computers, vehicles and other major equipment to be used in the development of the ten year plan and to determine the amount reserves needed for future replacement of these items. Reserves shall also be maintained at a level, together with purchased policies, adequate to indemnify the Agency for property, liability, workers compensation and other insurance risks. Reserves for liability and workers compensation should be maintained at no less than a 75% confidence level for the expected value of future losses based on the latest actuarial study. In the General Fund, the Agency shall strive to allocate a minimum of 1% of its operating budget as a budgeted contingency. Staff will report on reserve balances as part of the budget, interim financial reports and CAFR presented to the Board.

Use and Replenishment of Reserves / One-Time Funds

Board approval is required to approve use of reserve funds, with the exception of accessing Operating Reserves to support short-term cash flow needs within an approved balanced budget. If any Reserves are not replenished within the same fiscal year, the Board shall approve a replenishment plan as part of the annual budget process. The replenishment plan should not exceed three years. One-time revenues shall be dedicated for use as one-time expenditures or to increase reserve levels. Annual operating budgets are not increased to the point that ongoing operating costs become overly reliant on cyclical or one-time revenues sources. During periods of economic downturn, the use of one-time sources of funds or reserves may be used to ease the transition to downsized and/or reorganized operations.

User Fee Rates

Water rates shall be adjusted between user classes in accordance with accepted cost of service methodology, to ensure each user class pays only its fair share. Rate increases shall be made based on long-term financial needs as identified by the Ten-Year Financial Plan for the Agency, and shall be sufficient to accomplish the following: a.) recover all direct and indirect costs and maintain the reserves noted above; b.) Maintain sufficient reserves to fund the Agency's ten year capital program to minimize the need for debt financing or the possibility of deferring projects due to insufficient cash flow, c.) Exceed all bond coverage reserve requirements as mandated by bond indentures and the Agency's debt policy and d.) to fund the early retirement of the Agency's pension obligations to minimize future interest costs on these obligations.