



# Monterey One Water Budget Revenue and Reserve Policy

## TYPES OF RESERVES

**Operating Reserve** 30%  
of Budget for  
Depts 10-40

**Contingency Reserve** 20%  
of Budget  
Depts 10-40

**Wastewater CIP Reserve**  
In 5 Years  
10% of Ten  
Year Capital  
Budget / 20%  
10 Yr CIP  
within 10 Yrs

**Debt Service Reserve**  
Meets Debt  
Covenants



Fort Ord Preserve

## Purpose

This policy is developed to consider the minimum level necessary to maintain and improve M1W's credit rating and to adequately provide for:

- Economic uncertainties or downturns in the economy
- Local disasters or catastrophic events
- Future debt or capital obligations
- Cash flow requirements and legal requirements

## Reserve Balance Policies

M1W shall strive to maintain reserve funds at the following minimum reserve levels. 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 should be maintained at a minimum of 30% of the operating budget (excluding Reclamation Budgets 50-57, which are fully reimbursed by the MCWRA, and PWM Dept 58). This reserve should only go below the minimum in the case of a short-term unplanned financial event. In addition, M1W also shall allocate a minimum of 2% of its annual operating budget as a budgeted contingency.

### • *Wastewater Contingency/Emergency Reserve*

The Wastewater Contingency/Emergency reserve should be funded at a minimum of 20% of the operating budget (excluding Reclamation Budgets 50-57 reimbursable by MCWRA). This reserve can be accessed in the event of major unplanned event or litigation or for temporary budgetary stabilization purposes to fund major unplanned costs outside the approved rate structure.

### • *Wastewater Capital Program Reserves*

By the end of FY 23-24, the Capital Program reserve should be funded at a minimum of 10% of the 10 year capital program budget (excluding capital projects funded through debt proceeds, grants or by an outside agency) and at a minimum of 20% by the end of FY 28-29. These reserves can be used to support any unforeseen or emergency capital costs.

### • *Debt Service Reserves*

Debt service reserves shall meet or exceed all rate covenant requirements for M1W's outstanding long-term debt.

### • *Pure Water Monterey Service Reserves*

Operating revenues shall be at least 110% of the annual expense budget. Staff will report on these reserves as part of M1W's financial reports.



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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

Budget shall allocate  $\geq 2\%$  of operational expense as a contingency

Rates to cover Operations, CIP, bonds and fund early retirement of pension debt



Point Pinos Lighthouse

### Equipment Replacement / Insurance Reserves

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 replacement plan for these items.

Reserves should also be maintained at a level with purchased policies, adequate to indemnify M1W 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.

### 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 expenses or to increase reserve levels. Annual operating budgets should not be 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 M1W, and shall be sufficient to accomplish the following:

- 🔥 *Reserves:* Recover all direct and indirect costs, maintain reserve levels;
- 🔥 *Capital Program:* Fund ten-year capital program and minimize the need for debt financing or deferring projects due to insufficient funds;
- 🔥 *Bond Coverage:* Exceed all bond coverage reserve requirements as mandated by bond indentures and M1W's debt policy
- 🔥 *Pension Obligations:* Fund the early retirement of M1W's pension obligations to minimize future interest costs on these obligations.