

**RESOLUTION 743-19**  
**RESOLUTION OF THE BOARD OF DIRECTORS**  
**OF THE MONTE VISTA WATER DISTRICT,**  
**COUNTY OF SAN BERNARDINO, STATE OF CALIFORNIA,**  
**AMENDING ITS CASH RESERVE POLICY**

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**WHEREAS**, the Monte Vista Water District (hereafter "District") as prudent financial management, wishes to adopt, maintain, and operate its district upon a sound and easily understood cash reserve policy outlining the use, rationale for collection, and target levels of such reserves; and

**WHEREAS**, Section 5 of Article XIII B of the California Constitution expressly authorizes special districts and other local public agencies with the authority to establish reserve funds as they deem reasonable and proper to meet specific future needs; and

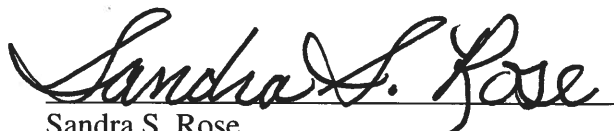
**WHEREAS**, The District's current Cash Reserve Policy is set forth by Resolution 612-07, dated April 11, 2007; and

**WHEREAS**, the efficient use and management of such reserves, and their constitutionally-protected status as opined by the California Legislative Counsel's April 29, 2003 Opinion Letter, assures the current and future ability of the District to provide, transport, and distribute potable and recycled water to its customers; and


**WHEREAS**, the District's adoption of the Financial Master Plan (hereafter "FMP") specifically outlines and provides for the capital improvement program, future water rates, and fee structure as well as strategies for managing District reserves.

**NOW THEREFORE BE IT RESOLVED**, the Monte Vista Water District Board of Directors has acknowledged and reviewed the Cash Reserve Policy, attached hereto as Exhibit A, and the policy is hereby approved and adopted. Upon adoption of this Resolution, Resolution 612-07 shall be repealed and rescinded in its entirety effective March 14, 2019.

ADOPTED this 13<sup>th</sup> day of March 2019.

  
Sandra S. Rose  
President of the Board of Directors  
MONTE VISTA WATER DISTRICT

ATTEST:

  
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Mark N. Kinsey  
Secretary to the Board of Directors  
MONTE VISTA WATER DISTRICT

**EXHIBIT A**  
**CASH RESERVE POLICY**

**A. GENERAL POLICY:**

Maintaining adequate cash reserves is an essential part of sound financial management. The Monte Vista Water District's (District) Board of Directors realizes the importance of reserves in providing reliable service to its customers, financing of long-term capital projects in addition to funding availability for emergencies should the need arise. Interest derived from reserve balances shall be credited to the reserve account from which it was earned. The establishment of any new reserve account will be determined based on the following criteria:

1. Purpose and need for the reserve fund;
2. Availability and source of funds to maintain, replenish or initially establish the reserve;
3. Operating expenditure levels approved within the annual budget process;
4. Future capital expenditure and debt service requirements of the district; and
5. Board of Directors approval of the reserve policy.

**B. DEFINITIONS:**

There are three types of Funds:

- 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.
- II. **CAPITAL FUNDS:** Established by action of the Board and designated for specific purposes. This fund is utilized primarily to fund capital and asset costs, for both new and replacement projects.
- III. **LIQUIDITY FUNDS:** Established by action of the Board to safeguard the District's financial viability and stability and are funded from accumulated revenues.

**C. SCOPE:**

The District will maintain its liquidity and capital funds in separate, designated sub-accounts in a manner that ensures its financial soundness and provides transparency to its ratepayers. The Fund balances are considered the minimum necessary to maintain the District's creditworthiness and adequately provide for:

- Compliance with applicable statutory requirements
- Financing of future capital facilities and repair and replacement of existing assets
- Financing of water purchases through the Water Banking Program
- Cash flow requirements
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Contingencies or unforeseen operating and/or capital needs

In the context of funding future capital facilities and maintaining and replacing existing assets, in each instance, the District will analyze the benefits and trade-offs of utilizing Pay-Go and/or debt financing to determine the optimal funding strategy or combination of funding strategies. The analysis will consider the District's current and projected liquidity, capital positions, the impact of inflation, the cost of water and other operational factors of the District and its capital improvement program. The District will measure its liquidity position by calculating "day's cash" or other appropriate liquidity calculations. In addition, the District will calculate its capital positions, as measured by its debt-to-equity ratio and any other appropriate calculation.

The District has established and will maintain the following primary Funds and their respective sub-accounts:

- **Restricted Funds** – comprised of the Debt Service (Fund) Reserve
- **Capital Funds** – comprised of the Capital Replacement (Fund) Reserve, Growth (Fund) Reserve, the Emergency (Fund) Reserve, and the Local Water Resource Development (Fund) Reserve
- **Liquidity Funds** – Annual Debt Service Payment (Fund) Reserve, Water Banking (Fund) Reserve, and the Operating Reserve (Fund) Reserve

Fund balances will be reviewed on an annual basis to ensure compliance with this Policy. In the event the Liquidity Fund balance exceeds the established aggregate maximum, excess monies will be transferred annually into the Capital Funds. On an as-needed basis, moneys can be moved between the Capital and Liquidity Funds as approved by the Board.

The minimum established for each Fund represents the baseline financial condition that is acceptable to the District from risk and long-range financial planning perspectives. Maintaining reserves at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various revenue generating alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to: fees and charges, water usage, capital financing, investment of funds and levels of capital expenditures. The District will strive to meet the target funding levels within 12-14 months of when the reserve drops below the minimum levels.

## **D. FUND TARGET LEVELS and MANAGEMENT:**

### **RESTRICTED FUNDS**

#### *1.0 Debt Service (Fund) Reserve*

- A. Definition and Purpose – Established to cover deposit requirements held with a designated Fiscal Agent for loan agreements, legal bond documents, or any other debt-related covenants.
- B. Target Level – The debt service reserve requirement is established at the time of debt issuance.

- C. Events or Conditions Prompting the Use of the Reserve – The respective debt covenants dictate when this reserve may be utilized. Generally, debt service reserve funds are used as needed by the fiscal agent to pay any outstanding debt service payments not covered by the District within the specified billing and due dates.
- D. Periodic Review Dates – Reserve balance has been set by contract requiring no review by the District’s Board of Directors.

## CAPITAL FUNDS

### 2.0 *Capital (Fund) Reserve*

- A. Definition and Purpose – Established for the funding of new capital assets or the replacement of capital assets when they reach the end of their useful lives.
- B. Target Level – Funding shall be determined at the end of each fiscal year by the available funds remaining based on the District’s operations as presented in the audited financial statements with an annual contribution of \$1,500,000. The target level shall be a minimum of \$3,000,000.
- C. Events or Conditions Prompting the Use of the Reserve – Through the annual budget process, staff shall recommend anticipated new or replacement asset projects. The Board of Directors shall take action to approve recommended project appropriations from the capital reserve fund. Should emergency replacement be necessary during any fiscal year, the Board of Directors may take action to amend the budget and appropriate needed funds as required by such emergency.
- D. Periodic Review Dates – Reserve balances shall be reviewed by District Staff and presented to the Board of Directors as part of the annual budget process.

### 2.1 *Growth (Fund) Reserve*

- A. Definition and Purpose – Established to provide future funding derived from connection fees collected on new development resulting in increased service demand to the District’s operating and distribution system.
- B. Target Level – The target level shall be a minimum of \$500,000 and a maximum equal to the next five years of growth-related CIP as prescribed in the most recently adopted financial master plan, rate study or budget document. All fees collected and interest earned within this fund shall be exhausted when the District has reached build-out projections of equivalent units.
- C. Events or Conditions Prompting the Use of the Reserve – This reserve may only be utilized for costs associated with future user capacity improvements as approved by the Board of Directors.
- D. Periodic Review Dates – Reserve balances shall be reviewed by District staff and presented to the Board of Directors as part of the annual budget process.

### 2.2 *Emergency (Fund) Reserve*

- A. Definition and Purpose – Established to provide protection recovery to the District and its customers for losses arising from a disaster or any other unexpected loss as a result of conducting District related business. The reserve level combined with the District’s existing insurance policies should adequately protect the District and its customers in the event of a loss.
- B. Target Level – Funding shall be targeted at a minimum equal to 1% of the replacement value of the District’s capital assets net of depreciation with a maximum level set at 2%.
- C. Events or Conditions Prompting the Use of the Reserve –The funds may be used in the event of economic loss which negatively impact either revenues or expenses, or causes a material decline in other reserve accounts. The reserve may be used to fund replacement of critical assets damaged by catastrophic events such as a severe earthquake or fire. Any reimbursement received by the District from insurance companies as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss.
- D. Periodic Review Dates – Reserve balances shall be reviewed by District staff and presented to the Board of Directors as part of the annual budget process.

2.3 *Local Water Resource Development (Fund) Reserve*

- A. Definition and Purpose – The Local Water Resource Development (Fund) Reserve is used to fund the development, improvement, or acquisition of local water resource projects or efforts. This fund is designated by the Board to reduce the District’s reliance on costly imported water. The District may use funds herein for either capital or operating purposes in accordance with Board approval.
- B. Target Level – Funding shall be targeted at a minimum amount equal to \$500,000, and a maximum of \$1,500,000.
- C. Events or Conditions Prompting the Use of the Reserve – Upon Board authorization, this fund may be utilized for projects or efforts to develop local water resources, such as but not limited to: purchase of water supplies/rights, development of groundwater or surface water supplies, and any other type of effort to reduce the District’s reliance on imported water.
- D. Periodic Review Dates – Reserve balances shall be reviewed by District staff and presented to the Board of Directors as part of the annual budget process.

LIQUIDITY FUNDS

3.0 *Annual Debt Service Payment (Fund) Reserve*

- A. Definition and Purpose – Established to accumulate funds for repayment of debt not otherwise required by a loan agreement, legal bond document, or any other debt-related covenant such as bond issuances having no restricted reserve requirement and loans obtained by the District for specific capital projects. The funds in the reserve cover the District’s debt service payment requirements in the event of a temporary cash flow deficiency.

- B. Target Level – Funding shall be equal to one year of debt service payments for each bond or loan.
- C. Events or Conditions Prompting the Use of the Reserve – These reserve funds will be spent on repayment of debt for any applicable bonds or loans or any other operating expense.
- D. Periodic Review Dates – Reserve balance has been set by the associated debt payment schedules requiring no review by the District’s Board of Directors.

*3.1 Water Banking (Fund) Reserve*

- A. Definition and Purpose – The Water Banking (Fund) Reserve is used for the purchase of available water supplies. Purchases from this fund are typically made to hedge the future rising costs of imported water. This fund is designated to maintain a reliable supply of water.
- B. Target Level – Funding shall be targeted at a minimum amount equal to 3% of the budgeted water sales and the maximum amount shall not exceed the cost of purchasing 2,000 AF of Metropolitan Water District (MWD) Tier I Full Service Untreated imported water.
- C. Events or Conditions Prompting the Use of the Reserve – Upon Board authorization this fund may be routinely utilized by staff to purchase excess supplies of water.
- D. Periodic Review Dates – Reserve balances shall be reviewed by District staff and presented to the Board of Directors as part of the annual budget process.

*3.2 Operating (Fund) Reserve*

- A. Definition and Purpose – Established to cover temporary cash flow deficiencies that occur as a result of timing differences between the receipt of operating revenue and expenditure requirements and unexpected expenditures occurring as a result of doing business.
- B. Target Level – Funding shall be targeted at a level equivalent to three months (or 25%) of the District’s annual operating expense budget.
- C. Events or Conditions Prompting the Use of the Reserve – This reserve may be utilized as needed to pay outstanding operating expenditures prior to the receipt of anticipated operating revenues.
- D. Periodic Review Dates – Reserve balances shall be reviewed by District staff and presented to the Board of Directors as part of the annual budget process.

**E. DELEGATION OF AUTHORITY:**

The Board has sole authority to amend or revise the Cash Reserve Policy. Through approval of this policy, the Board has established written procedures for staff to follow in the management of the District’s reserve funds.