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# MARINA COAST WATER DISTRICT

## POLICY MANUAL

**POLICY TITLE:** Reserve Policy

**POLICY NUMBER:** 3050

**3050.1** Purpose. The purpose of this policy is to ensure Marina Coast Water District (“District” or “MCWD”) has sufficient funds to meet current and future needs. Annually, during the budget adoption process, the District Board of Directors (Board) will approve appropriate levels and uses for reserve funds based upon the needs of the District.

**3050.2** Policy Statement. A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, debt service needs, unforeseen events, stable rates for service and the security that the District can respond to emergencies.

Adequate reserves directly affects the District’s bond rating and ultimately the ability to access debt markets at favorable interest rates, thereby ensuring the ability to finance and construct the infrastructure necessary to renew existing systems and expand water and wastewater service levels to meet future needs.

This Policy is intended to ensure MCWD has sufficient funds to meet current and future needs. Annually during the budget adoption process, the District Board of Directors (the “Board”) will approve appropriate levels and uses for reserve funds based upon the needs of the District.

**3050.3** General Provisions. The District may 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
- Financing of repair and replacement of existing assets
- Cash flow requirements
- Economic uncertainties and other financial hardships or downturns in the local or national economies
- Unexpected local disasters, such as earthquakes, fires, etc., or system failures
- Contingencies or unforeseen operating or capital needs

MCWD has established and will maintain the following categorization of reserve funds:

- Restricted Funds – these funds are restricted by outside sources such as creditors, grantors, contributors, or laws or regulations of such other Governmental entities.
- Board Designated Funds – these funds are set aside for a specific purpose, which is determined at the sole discretion of the Board. The Board also has the authority to redirect the use of these reserve funds as the needs of the District change.

This Policy is designed to meet requirements at the District level. The District recognizes the differences in capital and liquidity needs between the Central Marina community and

the Fort Ord community. Additionally, the District recognizes the differences in capital planning and liquidity requirements between the water and sewer systems. The District will continue to maintain distinct records and accounts for amounts determined under this Policy attributable to each component system. For purposes of this Policy the Component Systems are Marina Water, Marina Sewer, Ord Water, Ord Sewer and the Recycled Water System.

Compliance with this Policy will be measured at the District level, however, in furtherance of compliance with this Policy and equity between rate payers of each community, and costs differences between the Regional Urban Water Augmentation Project System (“RUWAP”) and the water and wastewater systems, the District may take into account the specific fund balances associated with each Component System and shall take any legally authorized action necessary to ensure the compliance and equity intended hereunder.

#### **3050.4 Fund Target Levels and Management.**

##### **3050.4.1 Restricted Funds.**

1. Bond Proceeds Fund(s): Bond proceeds funds are monies derived from the proceeds of a bond issue. Typically, they consist of construction fund monies, and a debt service reserve fund (DSRF). The use of these proceeds is restricted by conditions set forth in the governing bond documents. These funds are usually held by the Trustee in favor of the bond holders.
2. Capacity Fee Reserve Fund: The monies in this fund are collected from developers to pay for the new facilities necessary to deliver water and wastewater service to newly developed property. These fees are for offsite improvements such as the development's fair share cost of wells, reservoirs, transmission mains, treatment plant capacity, wastewater facilities and other necessary facilities. The fees are collected at rates established by the Board based upon specific financial rate studies. The rates charged are based on a project's equivalent dwelling unit (EDU) basis. These funds are restricted to the design and construction of capital facilities for water and wastewater delivery. This Capacity Charge Reserve Fund is drawn upon as planned capital expenditures amounts are made.
  - Target Level. The balance in this account will fluctuate depending on the number and timing of development projects. Therefore, no minimum or maximum levels will be established.

##### **3050.4.2 Board Designated Reserve Funds.**

1. Capital Replacement and Improvement Fund: The Capital Replacement and Improvement Fund shall be used for the funding of the replacement of capital assets when they reach the end of their useful lives, or improvements to any Component System.
  - Target Level. Annually MCWD will strive to fund the Capital Replacement and Improvement Fund, based on availability of funds, with an amount equal to the result of multiplying (a) the depreciation amount for the prior Fiscal Year by (b) an amount equal to up to 40% for the Marina Community and 20% for the Fort Ord Community. There shall be no minimum or maximum balance for the Capital Replacement and

Improvement Fund. MCWD may set aside replacement or improvement monies on a project-by-project basis.

- Events or Conditions Prompting the Use of the Fund. Staff will recommend new assets to be constructed or assets to be replaced based on the District's CIP Master Plan. As projects are approved, funds will be appropriated from this reserve fund as necessary.
2. Rate Stabilization Fund: The purpose of the fund is to assist in smoothing rates to pay MCWD debt service and to assure that minimum debt service coverage ratios required by the District's bond covenants would be met in the future. Funds deposited into this reserve are treated as operating revenues in the year of deposit and will be treated as such in years of use for the purposes of computing the District's debt service coverage ratio. This fund is applied in the five-year financial plan and annual rate model along with other reserve funds, if necessary, to smooth future rate increases. This fund will provide a buffer should revenue estimates in any year not meet projections. This fund will be drawn down to smooth rate increases. Specifically, they will be applied in any year where other revenues are not sufficient to meet the required debt service coverage ratio. They will also be applied if meeting only minimum coverage levels could result in the District's bond ratings being downgraded.
- Target Level – This fund shall have no minimum or target level established. This fund is intended to be used to defray any unforeseen decreases in the sale of water, or long term increases in the cost of operating the Water and Sewer Enterprises. The Board upon the recommendation of staff, on a case-by-case basis, will determine the amount and timing for the funding of the Rate Stabilization Fund. The District shall establish a maximum funding level equal to 25% of annual aggregate debt service on all outstanding senior and subordinate debt.
  - Events or Conditions Prompting the Use of the Fund – This fund is intended to be used to defray any decline in revenues, or increase in operating expenses. The Board upon the recommendation of staff, on a case-by-case basis, will determine the amount and timing for any use of the Rate Stabilization Fund.
3. Operating Reserve Fund: The Operating Reserve Fund is used for unanticipated operating expenses and is designated to be utilized for current operations and to meet routine cash flow needs.
- Target Level – The Operating Reserve shall have a target balance equal to 150% (18 months) of the District's currently budgeted operating expenses.
  - Events or Conditions Prompting the Use of the Fund – This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by (i) timing differences between revenue and expenses; (ii) unexpected decreases in revenues; or (iii) unexpected increases in expenses.
  - Replenishment – in the event the Operating Reserve Fund is at or below the target level, the Board will take appropriate action to increase revenues to restore the balance to the target amount within the next fiscal year.

**3050.5** Delegation of Authority. The Board has sole authority to amend or revise this 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.

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Adopted: July 14, 2009 via Resolution No. 2009-48  
Revised: December 7, 2015 via Resolution No. 2015-59