

**LEBEC COUNTY WATER DISTRICT
RESERVE FUND POLICY
Adopted July 24, 2018
Resolution No. 2018-724**

Purpose

Lebec County Water District recognizes the importance of adopted policies relative to Reserves and Reserve Funds. Written adopted financial policies relative to designated reserves and reserve funds have many benefits and represent a critical element of sound fiscal management. It is the intent of this Reserve Fund Policy to clearly identify both Reserve Fund categories, Reserve Fund purposes, as well as set target levels for reserves that are consistent with the District's mission statement and the philosophy of the District's Board of Directors. This policy establishes the level of reserves necessary for adequately providing for:

- Funding infrastructure replacement.
- Economic uncertainties and other financial hardships.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.

Policy

General Fund

The General Fund is an unrestricted fund that can be used at any time to meet cash flow requirements of District operations. Authority to use the funds will be consistent with the District's Purchasing Policy. The minimum amount of the General Fund will equal two months of operating expenses. The maximum amount of the General Fund will equal three months of operating expenses.

Capital Replacement/System Improvement Reserves

Capital Replacement/System Improvement Reserves will be accumulated to fund infrastructure and Capital Replacement. A key objective for accumulating Capital Replacement/System Improvement Reserves is to minimize external borrowing and interest expense. The minimum amount of Capital Replacement/System Improvement Reserves will equal \$300,000. The Maximum amount of Capital Replacement/System Improvement Reserves will equal \$800,000.

The Board of Directors will authorize use of Capital Replacement/System Improvement Reserves during the budget process. Capital Replacement/System Improvement Reserves are also available for unplanned (unbudgeted) Capital Replacement System Improvement.

Authorization for the use of reserves for unplanned Capital Replacement/System Improvement will be consistent with the District's Purchasing Policy.

Emergency Reserves

The purpose of the Emergency Reserve Funds is to accumulate sufficient financial reserves necessary to insure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disasters and/or other emergencies. The minimum amount of Emergency Reserves will equal \$120,000. The maximum amount of Emergency Reserves will equal 240,000.

The Emergency Reserve Fund shall be designated as a restricted reserve fund. The Emergency Reserve Fund shall be expended solely for the purpose of responding to and maintaining District operations during a natural disaster and/or emergency. The District Manager is authorized to approve the expenditure of Emergency Reserve Funds, without prior approval of the Board of Directors, for purposes of restoration and/or maintenance of essential service levels in response to a natural disaster or other emergency. Upon expenditure of any Emergency Reserve Funds, the District Manager shall notify the Board of Directors at the earliest possible opportunity. Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund

This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

Procedure for Monitoring Reserve Levels

The General Manager shall perform a reserve analysis to be submitted to the Board of Directors upon the occurrence of the following events:

- Board of Directors' deliberation of the annual budget;
- Board of Directors' deliberation of a service charge rate increase;
- When a major change in conditions threatens the reserve levels established within this policy.

If the analysis indicates projected or actual reserve levels falling 10% below or above the levels outlined in this policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not within the minimum and maximum targeted level.
- An identified course of action to bring reserve levels within the minimum and maximum levels prescribed.