

MONTEREY COUNTY WATER RESOURCES AGENCY

Administrative Policy

Policy Title:	"CSIP Program" Reserve Policy
Policy No.:	2025-01
Authorizing Resolution No.:	
Effective Date:	
Next Review Date:	

This Reserve Policy applies to the Monterey County Water Resources Agency's (Agency) Castroville Seawater Intrusion Project, Salinas Valley Reclamation Project, and Salinas River Diversion Facility, collectively referred to herein as the "CSIP Program". The purpose of this Reserve Policy is to ensure that the CSIP Program will, at all times, have sufficient funding available to meet its administration, operation, maintenance, repair, replacement capital, and debt service obligations. Reserves will be managed in a manner that allows the Agency to fund costs consistent with its annually budgeted CSIP Program activities and Master Plan, while minimizing significant rate fluctuations due to changes in cash flow requirements. Reserves will be maintained at levels established hereafter by this Policy. Adequate reserves and sound financial policies promote the Agency's bond ratings in the capital markets; provide financing flexibility; minimizes risk of restrictive debt covenants; and the predictability of CSIP Program rates. This Reserve Policy covers all reserve funds of the CSIP Program. At the end of each fiscal year, compliance with the Reserve Policy will be reported to the Agency's Board of Directors and Board of Supervisors as part of each Fiscal Year-End Financial Report.

CSIP Program Reserve Fund Types

There are three major types of reserve funds: Legally Restricted Reserves, Board Designated Reserves and Unrestricted Reserves. Legally Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, etc. Board Designated Reserves are set aside for a specific purpose, e.g. a capital improvement project, as determined by the Board of Supervisors. The Board of Supervisors has the authority to redirect the use of these reserves if the needs of the CSIP Program change. Unrestricted Reserves are held for unplanned needs and emergency actions, as determined by the Board of Supervisors.

CSIP Program Reserve Fund Purposes

Legally Restricted Reserves

Bond Reserve: This fund is governed by legal bond covenants for revenue bonds issued for the CSIP Program. Bond covenants require that this fund be maintained at a level sufficient to fund maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event the Agency is unable to meet its required semi-annual debt service obligation.

Reserve funds for each revenue bond issue will be used to make the last two semi-annual debt service payments for that issue. Annual interest earnings on bond reserve funds shall be applied to each year's debt service payments. Reserve funds related to state revolving fund loans shall be treated identically to revenue bond reserve funds as these loans are contractually defined as parity debt to any senior lien bonds.

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Legally Restricted Project-Related Reserves: The Agency will maintain legally restricted reserves for contract retention of other funds if required under a contract for specific CSIP Program projects or purposes.

Board of Supervisors Designated Reserves

Rate Stabilization Reserve: This fund is established for the purpose of smoothing annual rates paid for the delivery of water by the CSIP Program. Funds deposited into this reserve are treated as operating costs in the year of deposit and will be treated as revenues in years of use for the purposes of computing the Agency's annual rate. There is no industry-wide protocol for establishing the funding level for this reserve. The fund balance will be re-evaluated against future requirements annually, and any proposed adjustments presented to the Board of Supervisors for consideration.

Capital Improvement Reserve: This fund is established for revenue-funded capital projects as approved in the annual budget or Master Plan for the upcoming fiscal year. This fund shall assist with timing adjustments inherent in most capital projects as it will include funding for capital projects that require rebudgeting from one fiscal year to the next. This fund can be applied with other reserve funds or annual revenues to smooth future rate increases.

This fund will be drawn down annually as revenue-funded capital expenditures are made. At the end of each fiscal year, the fund balance will be evaluated and replenished based on forecasted, future revenue-funded capital requirements as reflected in the annual budget or Master Plan. Any proposed adjustments presented to the Board of Supervisors for consideration.

Vehicle Replacement Reserve: This fund is established to fund planned replacement of vehicles and equipment that have reached the end of their useful lives. This fund is utilized to cover equipment replacement costs while smoothing cash flows and lessening annual pressure on rates.

This fund will be drawn down annually as replacement vehicles and equipment are purchased, consistent with the adopted budget. At the beginning of each fiscal year, funds will be deposited in this fund as provided for in the adopted fiscal year budget. Budget levels will be based generally on annualized replacement costs as determined by the Agency's Finance Manager. Annual deposits shall be approved by the Board of Supervisors as part of the annual CSIP Program budget. Interest earnings on fund balances will be deposited into the fund as will the net proceeds of the sale of replaced vehicles and equipment. This fund shall be maintained at a minimum balance of the funds required for the following year's budgeted fleet replacements.

Liability Self-Insurance Reserve: This fund is established to pay extraordinary CSIP Program liability claims and expenses beyond the Agency's general insurance policies.

Emergency Response Reserve: The purpose of this reserve is to provide funding for events the Board of Supervisors may deem as "emergency". The reserve shall fund repairs to critical facilities or assets damaged from emergency events. Use of this reserve shall be approved by the Board of Supervisors. This fund shall be maintained at a minimum level of \$500,000. The balance in this reserve shall be evaluated annually and may be increased or decreased as authorized by the Board of Supervisors.

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Unrestricted Undesignated Reserves

Unrestricted reserves will be drawn down over time to smooth rate increases. The balance will be maintained at a level equivalent to a minimum of six months of annual operating budget requirements. In any period, the required minimum may be satisfied by considering unrestricted reserves in conjunction with funds available within the Rate Stabilization Reserve. The planned use and replenishment of unrestricted reserves is re-evaluated annually in conjunction with the update of the annual budget, as approved by the Board of Supervisors.

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