



Western Canal Water District RESERVE POLICY Approved April 18, 2023

PURPOSE

Adequate levels of reserves are critical to the successful and stable operation of the District. Maintaining adequate reserves allows for reasonable levels of rate stabilization from year to year for ratepayers and assures that the District can respond to short-term emergencies, including unforeseen costly regulatory requirements.

Special districts have constitutional authority under Article XIII B of the California Constitution to establish reserve funds as the districts “deem reasonable and proper.” Therefore, Western Canal Water District’s (“District”) Reserve Policy has been developed to consider the level of reserves necessary to adequately provide for:

- Cash flow requirements
- Defending the District’s water rights
- Contingencies for unforeseen operating or capital needs
- Loss of significant revenue sources such as water service income and other assessments
- Economic uncertainties or other financial hardships
- Unfunded mandates including costly regulatory requirements

Reserve funds are not “surplus” funds, but rather necessary funds designated for various purposes important to the short and long-term operations of the District. The District believes that a certain portion of its cash assets should be held in reserve as part of its overall financial management strategy.

Guiding Principles: The target levels of each of the District’s individual reserves are set to provide reasonable assurance that the funds in each reserve are adequate for their purpose over a one-year period. Designated reserve funds are earmarked for many purposes, including funding new capital facilities, construction, repair or refurbishment of existing facilities, rate stabilization and operating reserves, protection of water rights, unforeseen litigation, and unfunded regulatory mandates. These funds can be utilized at the discretion of the District. The Board of Directors (“Board”) can change fund designations at any time. All earnings on designated reserve funds accrue to the District’s general fund and become a part of the annual non-operating revenues.

SUMMARY OF RESERVE FUNDS BY CATEGORY

1. Annual Operations Reserve

The Operations Reserve is established for the following purposes:

- To provide for the operating cash flow needs of the District operations for one year.
 - To provide funds as necessary for purposes not contemplated by the other District Reserves.

- To fund any unforeseen loss resulting from District operations.

Reserve Target: \$2,500,000

2. *Unforeseen Operating, Infrastructure Improvement, or Capital Reserve*

The operations of the District rely on machinery, other rolling stock, a variety of both mechanical and computer equipment, and a large system of improvements and capital infrastructure. The District recognizes the need to earmark funds for the regular repair and replacement of these items. Because the cost of replacing and improving many of these items is significant, the District desires to establish and fund to accumulate funds for these costs, especially since the cost and ability to borrow funds as needed is driven by market conditions that may or may not be advantageous or available to the District at the time asset replacement is necessary.

Reserve Target: \$2,500,000

3. *Economic Uncertainties, Defending Water Rights, Unfunded Mandates, Water Supply Protection and Regional Sustainability, and Other Litigation.*

The District recognizes the need to participate in and fund activities and programs that will protect, enhance, and ensure the long-term reliability of the District's surface and groundwater supplies. These activities include but are not limited to, water transfer monitoring and mitigation, sustainability of groundwater supplies, fishery restoration efforts, water supply development, and legal and expert consulting related to defending the District's Feather River Diversion Agreement.

Reserve Target: \$ 3,000,000

PROCEDURES FOR USING RESERVE FUNDS

The District intends that current operating expenditures (net of depreciation and amortization) plus normal annual capital expenditures be funded with current revenues. Reserves may be used at the discretion of the Board to provide budgetary funding for the purposes for which the reserves were established, as detailed above. The Board will authorize the use of reserve funds during the District's annual budget process. Authorization for the use of reserve funds for unbudgeted projects during the year shall also be approved by the Board. The Board, at its sole discretion, may establish new reserve funds, combine or modify existing reserves, and set new minimum or maximum funding levels.

PROCEDURE FOR MONITORING RESERVE LEVELS

- The Finance Committee shall annually perform a reserve analysis and submit recommended adjustments to the Board.