



Update to Reserve Policy

Board of Directors Meeting

December 1, 2020

Existing and Proposed Names of Reserves

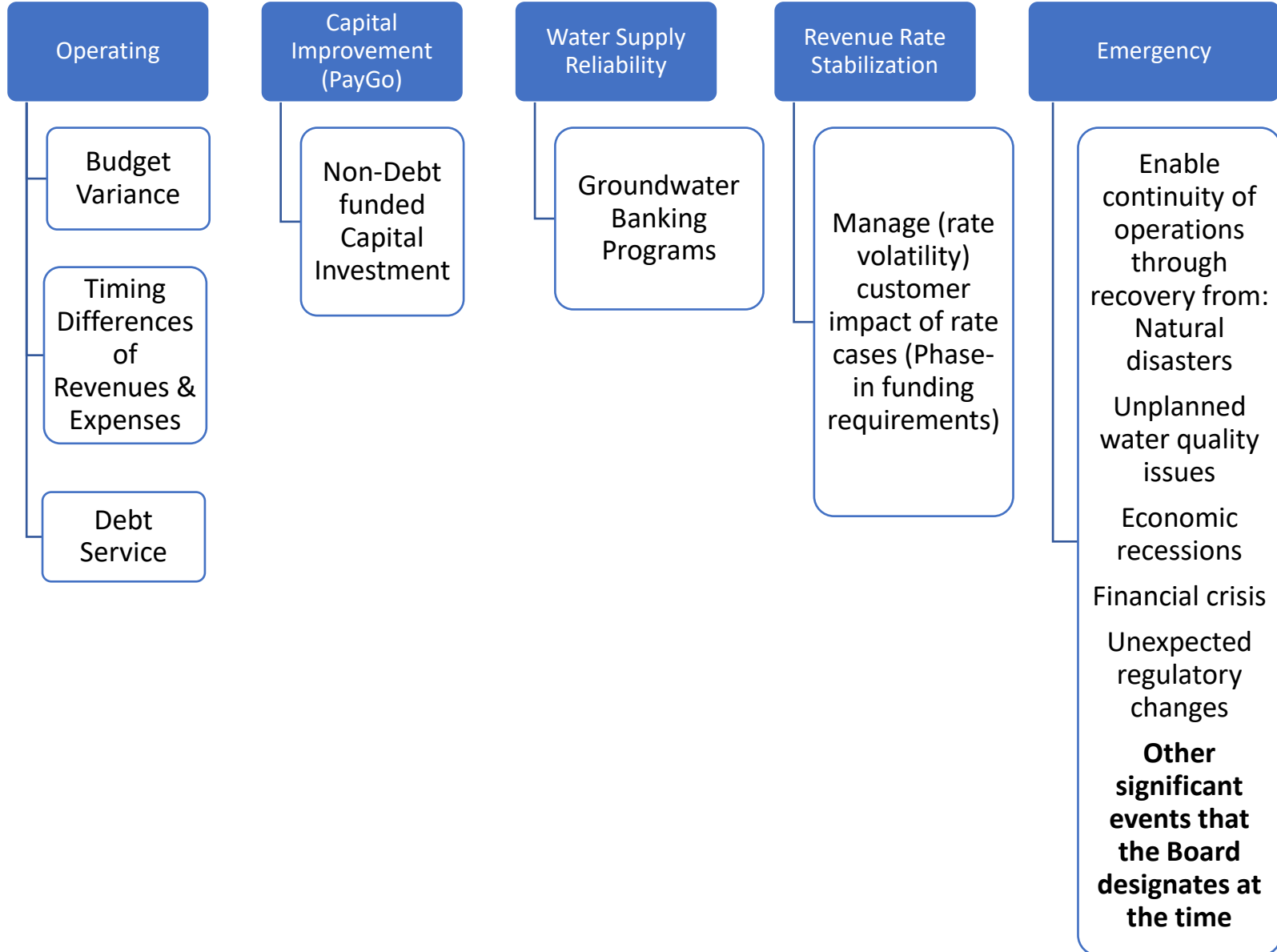
Existing Names of Reserves

- 1) Operating Reserve
- 2) Capital Improvement and Replacement Funds
- 3) Water Supply Reliability Reserve
- 4) Revenue Rate Stabilization Reserve
- 5) Emergency, or Contingency Reserve
- 6) Capital Reserve

Proposed Names of Reserves

- 1) Operating Reserve
- 2) Capital Improvement and Replacement (**PayGo**)
Reserve
- 3) Water Supply Reliability Reserve
- 4) Revenue Rate Stabilization Reserve
- 5) Emergency, ~~or Contingency~~
Reserve

Purpose of Each Reserve



Existing vs Proposed Reserve Targets

Table 1 – Existing Reserves and Funding Criteria

| TYPE OF RESERVE | REGIONAL | NWD | SCWD | VWD |
|--|--|--|--|--|
| Operating | 25% of operating expenses plus one-year annual debt service less any restricted DSRF | 25% of operating expenses plus 6 months of annual debt service | 25% of operating expenses plus 6 months of annual debt service | 25% of operating expenses plus 6 months of annual debt service |
| Capital Improvement & Replacement | Current budget pay-go projects | Current budget pay-go projects | Current budget pay-go projects | Current budget pay-go projects |
| Capital Reserve | 3-YR average of annual depreciation | 3-YR average of annual depreciation | 3-YR average of annual depreciation | 3-YR average of annual depreciation |
| Water Supply Reliability Reserve | Cost to produce 5,000-acre feet from banking programs | NA | NA | NA |
| Revenue Rate Stabilization | 15% of operating revenue | 10% of operating revenue | 10% of operating revenue | 10% of operating revenue |
| Emergency/Disaster | Equal to 365 days of operating expenditures | 2% of net capital assets | 2% of net capital assets | 2% of net capital assets |

Table 2 – Proposed Reserves and Funding Criteria

| Proposed Reserves and Targets | |
|-----------------------------------|--|
| Reserve | Target |
| Operating | 120 days of annual budgeted operating expense, including debt service |
| Capital (PayGo) | Current year budget for pay-go projects |
| Water Supply Reliability | The cost to produce 10,000-acre feet from the Agency's banking program in a dry year |
| Revenue Rate Stabilization | 20% of annually budgeted operating revenues |
| Emergency | 120 days of operating expenses, excluding debt service |

Application of the Proposed Policy

| FY 21 Existing Policy | | | |
|----------------------------|----------------------|----------------------|----------|
| Reserve | Target | Balance | % Funded |
| Operating | \$46,572,741 | \$37,516,216 | 81% |
| Capital (PayGo) | \$43,484,506 | \$33,354,022 | 77% |
| Capital | \$31,427,800 | \$25,197,649 | 80% |
| Water Supply Reliability | \$3,000,000 | \$3,000,000 | 100% |
| Revenue Rate Stabilization | \$12,673,455 | \$12,673,455 | 100% |
| Emergency | \$38,770,799 | \$36,170,306 | 93% |
| | <u>\$175,929,301</u> | <u>\$147,911,648</u> | 84% |

| FY 21 Proposed Policy | | | |
|----------------------------|----------------------|----------------------|----------|
| Reserve | Target | Balance | % Funded |
| Operating | \$28,078,707 | \$28,078,707 | 100% |
| Capital (PayGo) | \$43,484,506 | \$71,013,141 | 163% |
| Water Supply Reliability | \$6,000,000 | \$6,000,000 | 100% |
| Revenue Rate Stabilization | \$18,070,000 | \$18,070,000 | 100% |
| Emergency | \$24,749,799 | \$24,749,799 | 100% |
| Total | <u>\$120,383,013</u> | <u>\$147,911,648</u> | 123% |

\$147,911,648 \$27,528,635 remaining to allocate

Type of Reserve

Each reserve has specific uses and can be characterized as having an Active or Static balance.

Active: Amounts in the reserve are commonly used during the year

Static: Amounts in the reserve are held for infrequent use

| Reserve | Type |
|---|--------|
| Operating | Active |
| Capital Improvement & Replacement (PayGo) | Active |
| Water Supply Reliability | Active |
| Revenue Rate Stabilization Reserve | Static |
| Emergency | Static |