Board Administrative Committee  
March 18, 2021

**SUBJECT:**

Adopt a Proposed Resolution Adopting the Eastern Municipal Water District Reserve Policy

**BACKGROUND:**

On August 18, 1999, the Board adopted Resolution No. 3359 which established, amended, and reaffirmed prior Board actions regarding certain reserve and restricted fund policies. Resolution No. 3359 established a formal reserve policy (Current Reserve Policy) for the District to be used as the guiding principle for District reserves. The Current Reserve Policy provided staff with guidelines for establishing limits and other criteria that might have otherwise required individual Board action. That is, the Resolution defined the various uses for reserve funds and the legal or internal constraints associated with those reserves. Since its creation, the Reserve Policy has been useful in informing the public and various organizations information regarding the District’s reserve funds.

On December 19, 2001, the Board adopted Resolution No. 3359.1 which revised the Current Reserve Policy with minor title updates, included methodology to be used for establishing certain year end balances, and formally added two additional reserve funds that were in use at the time but not explicitly named in the policy, including the General Damage Reserve and the Dental Reserve.

On January 22, 2003, the Board adopted Resolution No. 3359.2 which revised the Current Reserve Policy to authorize the Director of Finance the ability to transfer excess funds from certain reserves to the Capital Replacement Reserve to meet adequate funding requirements. Prior to this revision, excess funds could only be transferred to the Replacement and System Betterment Construction Reserve.

The goal of maintaining adequate reserves is to ensure there are appropriate levels of working capital in the District’s reserve funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees. A review of the District’s Current Reserve Policy, reserve funds, accounting practices, and justifications for reserve calculations have been conducted by staff. Based on review of more modern reserve policies of nine California Water Districts, it has been determined the Current Reserve Policy does not reflect current accounting guidelines as prescribed by the Governmental Accounting Standards Board, nor does it provide relevant guidance for the District’s current and ongoing financial needs based on current operations.

The proposed new Reserve Policy (Exhibit A) identifies all restricted and unrestricted, designated reserves with the name, description, source, purpose, and target. The Reserve
Policy includes the addition, update, or removal of the following:

- Combined multiple COP Construction Reserves to Bond Improvement Reserve.
- Combined Debt Service Installments Payments Fund and Debt Service Reserve Fund into Annual Operating Debt Service Reserve.
- Renamed the following reserves:
  - Restricted New Construction Fund to Future Development Capital Reserves,
  - Bond Operating Covenant Fund to the Operating Reserve,
  - Capital Replacement Reserve to Equipment Replacement Reserve.
- Segregated into two separate funds, the Repairs and Replacement, and System Betterment Construction Reserves.
- Deletion of Readiness-To-Serve Reserve, Restricted 1993A COP Construction Fund, Restricted 2001B COP Construction Fund, Restricted Assessment District Funds, Employee Vacation Trust Fund, Employee Sick Leave Trust Fund, General Damage Reserve, Dental Reserve, and General Fund Reserve which were no longer necessary.

Adoption of the proposed Resolution (Exhibit B) will establish the Reserve Policy as the new guiding principle for District reserves and replace and supersede all previous versions of the Current Reserve Policy by rescinding Resolution Nos. 3359, 3359.1, and 3359.2.

**FINANCIAL IMPACT:**

None

**STRATEGIC PLANNING GOAL/OBJECTIVE:**

Financial Stability: Enhance and maintain EMWD’s strong financial position and credit quality by identifying and implementing specific opportunities to improve underlying financial metrics.

**ENVIRONMENTAL IMPACT:**

None

**RECOMMENDATION:**

Adopt a proposed Resolution rescinding Resolution Nos. 3359, 3359.1, and 3359.2 and adopt the EMWD Reserve Policy.
SUBMITTED BY:

Paul B. Jones II, P.E., General Manager 3/15/2021
Laura Nomura, Deputy General Manager 3/12/2021

Attachment(s):
Exhibit A - Reserve Policy
Exhibit B - Resolution
Presentation

04/21/21 Board Meeting

Staff Contact: John Adams