

STAFF REPORT

Meeting Type: Board of Directors

Title: Board Policy #46: Reserves

From: Bret Uppendahl, Finance Director

Through: Ben Horenstein, General Manager

Meeting Date: October 24, 2023

TYPE OF ACTION: X Action Information Review and Refer

RECOMMENDATION: Approve recommended revisions to Board Policy #46: Reserves

SUMMARY: The District maintains fiscal policies that collectively provide guidance for prudent financial management and long term financial planning. Board Policy #46: 'Reserves' details the District's existing reserve funds. During the Finance and Administration Committee meetings on August 24th and September 28th District staff provided an overview of District fiscal policies and provided initial recommended revisions to Board Policy #46 (Reserve Policy).

DISCUSSION: Within the existing Reserve Policy, there are six separate funds established for specific purposes. The last update to the Reserve Policy was the addition of the Water Supply Project Fund in April 2023. Prior to the addition of the Water Supply Project Fund, the Reserve Policy was last updated in 2013 with the addition of the Rate Stabilization Fund.

Based upon the District's current Reserve Policy, if all funds were fully funded, the result would be a cash reserve balance of \$111.1 million. As part of the 2023 rate setting process, staff provided information regarding reserve targets and noted that the District's current reserve balances are below the levels outlined in the Board's Reserve Policy. This is due, in part, to planned use of reserves during the recent drought.

In recent years, local governments have been 'rethinking' reserves to account for recent trends such as increased risk and uncertainty, changes in the climate and insurance landscape, and resource constraints. A risk-based approach that is tailored to the specific needs of the local organization includes ensuring sufficient cash balances to withstand revenue fluctuations, providing resources for emergency response, smoothing out the fiscal impacts to the ratepayer base, and strategically building up reserves for future investment.

During the last Finance Committee Meeting, staff presented a risk-based analysis that indicated a range between \$38 million and \$110 million for the District's total cash reserves. In addition to reviewing the District's current fiscal policies, staff has also conducted a review of other comparable water utilities in the Bay Area. While Marin Water's overall cash balance requirement is comparable to other agencies, there are differences in the underlying fiscal policy language with regard to the definition of the purpose for each reserve fund and the inclusion of both minimum balances and target balances for each reserve fund.

As detailed in Attachment 2, staff recommends that the Board revise Board Policy #46 to better define the purpose of each reserve fund, to refine the minimum balances for each fund, and to establish target balances where appropriate. In addition to revising current reserve balances, staff recommends that the Board establish a new reserve fund for 'Pension Stabilization'. Although the Board approved a Pension Reserve fund in 2018, the new reserve fund has not previously been formally incorporated in Board Policy #46.

ENVIRONMENTAL REVIEW: Not applicable.

FISCAL IMPACT: There is no immediate fiscal impact as a result of the recommended revisions to the Reserve Policy. The recommended policy revisions will result in a minimum reserve balance of \$53.7 million and a target balance of \$81.2 million.

ATTACHMENT(S):

- 1) Existing Board Policy #46
- 2) Recommended Revisions to Board Policy #46 (redline)
- 3) Recommended Revisions to Board Policy #46 (clean)

DEPARTMENT OR DIVISION	DIVISION MANAGER	APPROVED
Administrative Services Division	Buller	The Haranten
	Bret Uppendahl	Ben Horenstein
	Finance Director	General Manager