



RESERVES

Introduction

The purpose of this document is to establish a consistent policy for establishing the minimum and target reserve levels to be maintained by the District.

Scope

It is intended that this policy cover all reserve funds currently or to be established and held by the District. This policy shall not pertain to reserves held for the benefit of the District by others or reserves established as the result of the borrowing money or the issuance of debt by the District.

General

The Board recognizes the need and benefit of maintaining reserves to ensure that sufficient funding is available for operating, capital and debt service needs. Reserve funds will be accumulated and managed in a manner which allows the District to maintain daily operations and planned capital investments during times of economic uncertainty and to utilize reserves to stabilize long term water rates. It is the goal of this policy to establish the purpose for each reserve fund, as well as the minimum amount and target balances to be maintained by each.

Policy

The Board of Directors of the Marin Municipal Water District shall review the level of reserves held in each fund annually and at the time of adopting the two-year operating and capital budget.

The Board authorizes and directs that the following reserve funds be established and further directs that the minimum amount and target balance of each reserve fund shall be calculated as follows:

- 1) Insurance Reserve Fund: This fund is established to provide funding for the self-insured retention portion of insured loss claims. The fund shall maintain a minimum balance equivalent to the District's total annual self-insured retention. The target balance shall be two times the District's total annual self-insured retention.
- 2) Workers Compensation Reserve Fund: This fund is established to accumulate reserves sufficient to pay current and future workers compensation claims and operating expenses. The minimum balance shall be set by an actuarial review of the District's net claim liabilities. An actuarial study shall be conducted as required by state law but no less frequently than bi-annually.
- 3) Capital Reserve Fund: This fund is established to accumulate reserves that may be used for capital construction projects, equipment purchases, and grant matching purposes for capital projects. The fund shall accumulate unspent funds from annual transfers from operating revenues, unspent prior year Capital Maintenance Fee revenues and Connection Fees, funds received from one time "windfall" revenues and revenues from the sale of capital assets. The minimum balance shall be equivalent to 25 percent of the annual Capital Maintenance Fee revenue budget. The target balance shall be equivalent to 50 percent the annual Capital Maintenance Fee revenue budget.
- 4) Undesignated Operating Reserve Fund: This fund is established to accumulate reserves which may be used for any purpose of the District, including but not limited to unanticipated expenditures, emergency response, grant matching or pilot projects. A minimum balance equivalent to two months of the annual operating budget shall be maintained. The target balance shall be equivalent to three months of the annual operating budget. The target level shall be incorporated in the rate model when setting the District's water rates, fees, and charges.
- 5) Rate Stabilization Fund: This fund is established to accumulate reserves which may be used to mitigate the impact of revenue shortfalls attributable to reduced water sales, or to transfer gross revenues to be used in the calculation of the District's debt coverage ratio, or for any other lawful purpose of the District. The minimum balance shall be equivalent to ten percent of the District's variable water revenue. The target balance shall be equivalent to twenty percent of the District's variable water revenue. The target level shall be incorporated in the rate model when setting the District's water rates, fees and charges.
- 6) Water Supply Project Fund: This fund is established to accumulate reserves to support large scale investments and grant matching requirements related to supplemental water supply enhancement and resiliency projects. Beginning FY 2023-24, \$2.5 million will be transferred to the Water Supply Project Fund annually. The annual transfer shall be incorporated in the rate model when setting the District's water rates, fees and charges.

- 7) Pension Stabilization Fund: This fund is established to provide funding for required Unfunded Accrued Liability (UAL) payments resulting from investment market shortfalls and/or actuarial assumption changes. The minimum balance shall be equivalent to thirty-five percent of the District's annual UAL payment. The target balance shall be equivalent to sixty percent of the District's annual UAL payment. The target level shall be incorporated in the rate model when setting the District's water rates, fees and charges.

- 8) Facility Fund: This fund is established to accumulate reserves to support large-scale investments in worksite facilities. The fund shall accumulate unspent unrestricted appropriations during years that the District's Operating Fund ends the fiscal year with a surplus. The reserves may be used for the purchase, construction or improvement of worksite facilities or buildings that are accessed by the public. The minimum balance shall be equivalent to three percent of the District's annual budget for personnel services. The target balance shall be equivalent to twenty percent of the District's annual personnel services budget.