



MONTARA WATER AND SANITARY DISTRICT AGENDA

For Meeting Of: **December 6, 2012**

TO: BOARD OF DIRECTORS

FROM: Clemens H. Heldmaier, General Manager

**SUBJECT: Review and Possible Action Concerning
Consideration of District Reserve Policies.**

At the September 6 Board meeting the Board directed staff to develop draft reserve policies that show minimum and maximum amounts for each reserve. Bartle Wells prepared a document that was presented for discussion and led to the Board recommendation to verbalize a policy based on the presentation.

A draft reserve policy was prepared that explains the purpose of the three reserve funds and sets minimum and maximum target amounts for each enterprise fund. At the last meeting the Board suggested clarifying language for the specific target amounts. Bartle Wells revised the language accordingly and the finance committee reviewed the policy.

Legal Counsel has reviewed the reserve policy and prepared a resolution to adopt the policy.

RECOMMENDATION:

Review the suggested reserve policy, suggest any necessary changes and adopt the attached resolution.

Attachments

RESERVE POLICY OF MONTARA WATER AND SANITARY DISTRICT

The Montara Water and Sanitary District (MWSD) wishes to continue to maintain its fiscal integrity, to prudently plan for future financial needs, and to ensure adequate cash to pay operating and capital expenditures. To satisfy these financial goals, MWSD establishes the following reserves for the water and sewer enterprise funds. A separate reserve is made for each enterprise fund.

Operating Reserves

Purposes: Provide working capital and ensure sufficient cash flow to pay expenditures during the fiscal year; provide funds for any unexpected revenue interruptions; and provide funds to protect against shortfalls due to the timing difference between payment of expenses and receipt of revenues.

Targets: For the *water operating reserve*, a cash balance equal to two months' of operating expenses shall be held in reserve.

For the *sewer operating reserve*, the maximum target amount shall equal ten months' of operating expenses to be held in reserve and the minimum target amount shall equal two months' of operating expenses.

Uses: Moneys held the operating reserves shall be used to pay operating expenses, such as salaries, benefits, operation and maintenance costs, administrative and general expenses.

Capital Reserves

Purposes: Provide funds for (1) pay-as-you-go financing of capital projects listed in the capital improvement plans, (2) unanticipated emergency repairs, (3) capital cost overruns, and (4) replacement of major capital facilities.

Targets: For the *water and sewer capital reserves*, the target amounts are based on district engineers' estimates of the annual costs to replace water and sewer facilities and the five-year capital improvement plans (CIP). Each utility enterprise shall have a separate capital reserve. The maximum target amount shall equal the highest total annual amount shown in the CIP applicable to existing customers plus the district engineer's estimate of annual replacement capital project costs. The minimum target amount shall equal the lowest total annual amount shown in the CIP applicable to existing customers plus the district engineer's estimate of annual replacement capital project costs.

Uses: Moneys held the capital reserves shall be used for capital improvements, replacements, and other construction-related projects applicable to water and sewer facilities and systems.

Connection Fee Reserves

Purpose: Provides funds for expansion-related capital projects caused by increases in new water and sewer customers. The connection fee reserves are a restricted reserve pursuant to Government Code Section 66013.

Target: The *water and sewer connection fee reserves* shall equal one year's revenue.

Use: Moneys in the connection fee reserves shall be used for expansion-related capital projects necessary to serve new customers.

Financial Planning and Reporting

Each reserve shall be reported as a separate accounting entry on the District's balance sheet.

The Board of Directors and the General Manager will be responsible for managing the reserves. The amounts held in each of the reserves shall be reviewed annually by the Board of Directors as part of each year's budget approval process and shall be documented in each fiscal year's budget.

If an amount held in a reserve falls below the targeted minimum amount, the General Manager shall prepare a plan to increase the reserve level to the minimum level. The General Manager shall present the plan to the MWSD Board of Directors for their review and approval.

Moneys held in the reserves may be combined for investment purposes.

RESOLUTION NO. 1536

RESOLUTION APPROVING AND ADOPTING FINANCIAL RESERVE POLICY OF MONTARA WATER AND SANITARY DISTRICT

WHEREAS, prudent planning for financial needs includes provision of adequate funds to pay current budgeted operating and capital expenditures as well for future operating and capital needs, both planned and unanticipated; and

WHEREAS, this Board desires to maintain and strengthen its policy of fiscal integrity by adoption of a formal policy for the maintenance of financial reserves;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF THE MONTARA WATER AND SANITARY DISTRICT, a public agency in the County of San Mateo, California, as follows:


1. The policy set forth in that certain document entitled, "Reserve Policy of Montara Water and Sanitary District – November 1, 2012," a copy of which is on file in the District Administrative Offices, to which copy reference is hereby made for the full particulars thereof, is hereby approved and adopted as the financial this reserve policy of the Montara Water and Sanitary District.

2. The General Manager is hereby authorized and directed to take all appropriate action to implement the aforesaid policy.



President, Montara Water and Sanitary District

COUNTERSIGNED:



Secretary, Montara Water and Sanitary District

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I HEREBY CERTIFY that the foregoing Resolution No. 1536 was duly and regularly adopted and passed by the Board of the Montara Water and Sanitary District, County of

San Mateo, California, at a Regular Meeting thereof held on the 6th day of December 2012,
by the following vote:

AYES, Directors: Boyd, Harvey, Slater-Carter, Thollaug & Ptacek

NOES, Directors: None

ABSENT, Directors: None



Secretary, Monterey Water and Sanitary District