

RESERVES POLICY

Cash Reserve Policy

The Florin County Water District reserve policy is a financial policy guided by sound accounting principles of public fund management. The policy establishes several reserve funds to minimize adverse annual budgetary impacts from anticipated and unanticipated District expenses.

The adequacy of the target reserve year-end balance ranges and/or annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised accordingly as necessary.

The Policy contemplates two categories of reserve funds, including Restricted for Debt Service and Committed for Other Purposes. A “fund” is a segregation within the District’s accounting system to keep sources and uses for a particular purpose easily identifiable and reportable. Reserve funds should not be pooled or co-mingled, but should be segregated within the District's accounting system as distinct funds.

Restricted for Debt Service: At present the District has no debt. In the event the District incurs debt in the future, a Reserve Policy related to Debt Service will be established that will be based on the requirements of the source of debt financing.

Committed for Other Purpose: Funds that have been committed by formal action of the Board for the specific purpose listed, other than for Debt Service.

The following District reserve funds are restricted for debt service: NOT APPLICABLE AT THIS TIME. RESERVED FOR FUTURE USE.

The following District reserve funds are committed for other purposes:

1. Operating Reserve Fund

- 1.1. Purpose: To provide an emergency reserve fund to cover temporary cash flow deficiencies caused by timing differences between revenues and expenditures.
- 1.2. Target Balance: Funding shall be a minimum of sufficient cash to fund six months of District operating expenditures.
- 1.3. Methodology/Rational: The Board has determined that having sufficient cash flow to meet the next six months of budgeted District expenditures is a prudent practice, based on general guidance provided in state law (e.g. Government Code Section 53646(b)(3)) and the standards commonly used by bond rating agencies to determine the difference between strong and weak credit quality for water districts. This fund is included as a source of cash flow to satisfy this requirement.
- 1.4. Use of Funds: These funds may be used to cover temporary cash flow deficiencies caused by timing differences and/or unexpected decreases revenue and expenses.
- 1.5. Funding: At each fiscal year budget, an analysis will be performed to determine the minimum target balance based upon the previous fiscal year’s average monthly expenditures. Additionally, interest earnings will be accrued on and added to fund balance, using the District’s earnings rate on investments.

2. OPEB or GASB 75 Reserve Fund

- 2.1. Purpose: To provide a source of income to fund post-retirement benefits.
- 2.2. Target Balance: \$914,663 by Fiscal Year 2029/30.
- 2.3. Methodology/Rational: Government Code Section 22940 establishes in the State Treasury the Annuitants' Health Care Coverage Fund for the prefunding of health care coverage for annuitants (Prefunding Plan); and the California Public Employees' Retirement System (CalPERS) Board of Administration (Board) has sole and exclusive control and power over the administration and investment of the Prefunding Plan (also referred to as CERBT).
- 2.4. Use of Funds: To be used to fund post-retirement benefits costs, e.g. retiree medical insurance benefits obligated via applicable collective bargaining agreements.
- 2.5. Funding: Annual contributions through the budget process. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

3. Capital Improvement Reserve Fund

- 3.1. Purpose: To provide funds for the orderly and timely repair and expansion of the District facilities to maintain and/or improve the District's existing level of service.
- 3.2. Target Balance: None specified; refer to capital improvement projects identified as part of the annual budget process.
- 3.3. Methodology/Rational: As part of the annual budget process the Board will consider approving deposits into this reserve to meet future capital improvement needs. This reserve is established to insure the adequacy and reliability of District facilities, plant and equipment.
- 3.4. Use of Funds: The funds generated by the fee will be used to acquire, replace and/or construct various capital facilities, plant and equipment for the provision of water, security and administrative services.
- 3.5. Funding: Annual contributions through the budget process. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.