

**CASH RESERVE POLICY**

**1. POLICY STATEMENT**

Cash reserves are essential to ensuring fiscal responsibility, a key organizational goal of the Mid-Peninsula Water District (District). Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the District is committed to maintaining the long-term fiscal strength of the District.

**2. DEFINITION**

Cash reserves are savings necessary to balance District budgets during periods of fiscal constraint, allow for emergency preparedness, provide for a well-maintained infrastructure, and demonstrate a commitment to future system capital investments.

**3. PURPOSE**

Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, and capital improvements, are consistent with best practices in the utility industry. This Cash Reserve Policy is designed to provide operating guidance for the management of District finances.

**4. CASH RESERVES**

The District will maintain cash reserves in two (2) categories:

- A. Working Capital Reserve with a maximum target level of \$1.5 million, and ranked #1 for funding; and
- B. Capital Reserve with a maximum target level of \$1.5 million, and ranked #2 for funding.

**MID-PENINSULA WATER DISTRICT CASH RESERVE POLICY SUMMARY**

<b>RESERVE</b>	<b>FUNDING RANK</b>	<b>MAXIMUM TARGET LEVEL</b>
Working Capital Reserve	1	\$1,500,000
Capital Emergency Reserve	2	\$1,500,000

Replenishment of reserve levels and plans for meeting maximum target levels will be recommended by the General Manager as part of the District’s annual budgeting process.

**5. WORKING CAPITAL RESERVE**

The purpose of the Working Capital Reserve is to ensure that the District will at all times have sufficient funding available to meet annual operating costs, including temporary cash flow deficiencies that might occur as a result of timing differences between the receipt of operation revenue and expenditure requirements and unexpected costs that might occur as a result of doing business. Adequate operating reserves provide financial flexibility in the event of unanticipated expenditures or revenue fluctuations.

- A. Target Level: \$1.5 million.
- B. Use of Reserve: To pay outstanding operating expenditures prior to the receipt of anticipated operating revenues, or in circumstances resulting from short-term loss or shortage of revenues. The General Manager will notify the Board President prior to withdrawing and using the necessary funds, and seek ratification of the expenditure at the next regular Board Meeting.

## 6. CAPITAL RESERVE

The purpose of the Capital Reserve is to ensure that the District is able to fund the repair, maintenance, or replacement of the water system's infrastructure assets, during normal operations and emergencies. The reserve level combined with the District's managed risk pooled insurance coverage should adequately protect the District and its customers in the event of a catastrophic loss.

- A. Target Level: \$1.5 million.
- B. Use of Reserve: To cover unexpected losses experienced by the District as a result of a disaster or emergency incidents that might result in the normal course of doing business. Any reimbursement received by the District from insurance as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss. The General Manager will notify the Board President prior to withdrawing and using the necessary funds, and seek ratification of the expenditure at the next regular Board Meeting.

## 5.0 OVERSIGHT AND REPORTING

Reserve levels will be monitored by staff during the fiscal year and reported to the Board of Directors in monthly financial reports.

To the extent that reserves exceed target levels, the Board of Directors has the flexibility to direct staff to utilize the available funds to:

- A. Pay for capital projects (reducing the need for future debt);
- B. Pay down liabilities (e.g., unfunded accrued pension obligations, or OPEB—Other Post-Employment Benefits);
- C. Pay down existing debt; and/or
- D. Fund other strategic objectives.

This Cash Reserve Policy will be reviewed on a biennial basis to ensure conformance with the District's strategic goals and objectives, and updated as necessary in compliance with material changes in risk exposures, regulations, or standards.