



# Yorba Linda Water District

## Policies and Procedures

Policy No.: 3010-005  
Adoption Method: Resolution No. 17-31  
Effective Date: August 26, 2017  
Last Revised: June 27, 2017  
Prepared By: Delia Lugo, Finance Manager  
Applicability: District Wide

### **POLICY: FINANCIAL RESERVES**

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#### **1.0 GENERAL POLICY**

Maintaining adequate reserves is an essential part of sound financial management. The Yorba Linda Water District Board of Directors realizes the importance of reserves in providing reliable service to its customers, well-maintained infrastructure for current and future customers, financing capital projects as well as capital repair and replacement, and the ability to respond to changing circumstances. Interest derived from reserve balances shall be credited to the reserve account from which it was earned.

#### **2.0 CATEGORIES**

Yorba Linda Water District (YLWD or District) shall accumulate, maintain and segregate its reserve funds into the following categories:

- Board Designated Unrestricted Reserves; and
- Board Designated Restricted Reserves.

#### **3.0 SCOPE**

This policy will assist the Board of Directors in establishing:

- Minimum and Maximum Funding Levels, with target goals as a percentage of maximum funding level for each reserve fund, unless otherwise noted;
- Requirements for the use of reserve funds; and
- Periodic review requirements for each reserve.

#### **4.0 PERIODIC REVIEW**

Staff and the YLWD Board shall review the reserve balances and targets annually as a part of the annual budget process. The Finance Staff will continue to review all reserve and investment balances monthly, with a quarterly report going to the full Board. Any changes must be approved by resolution of the District Board of Directors. Changes can include, but are not limited to, establishment of additional reserve funds, changes in reserve target levels, and changes in types of reserve categories.

## 5.0 DESIGNATED UNRESTRICTED AND RESTRICTED RESERVES

### 5.1 Board Designated Unrestricted Reserves

These are reserve funds earmarked for the purpose of funding such items as new capital facilities, repair or replacement of existing facilities, and general operating reserves designated for a specific purpose and use by the Board of Directors. All reserves in this category will be funded at 67% of the recommended maximum funding level.

#### 5.1.1 Operating Reserve

- A. Definition and Purpose – Established to cover temporary cash flow deficiencies that occur as a result of timing differences between the receipt of operating revenue and expenditure requirements and unexpected expenditures occurring as a result of doing business.
- B. Funding Level – The District’s current funding levels will be a minimum of 25% and a maximum of 50% of the annual operating budget, including interest expense, for both the water and sewer funds. In the event this fund falls below its minimum funding level, the Board will act to restore the balance above the minimum funding level within twelve (12) months from the date that the fund fell below the minimum level.

Levels	Water	Sewer
Minimum	25%	25%
Target	67% of Maximum	67% of Maximum
Maximum	50%	50%

Levels	Water	Sewer
Minimum	\$7,059,170	\$371,748
Target	\$9,459,287	\$498,142
Maximum	\$14,118,340	\$743,496

- C. Events or Conditions Prompting the Use of the Operating Reserve – This reserve may be utilized as needed to pay outstanding operating expenditures prior to the receipt of anticipated operating revenues.

#### 5.1.2 Emergency Reserve

- A. Definition and Purpose – Established to provide protection recovery to the District and its customers for losses arising from an unplanned event or circumstance (i.e. fires, earthquakes or financial emergencies). The reserve level combined with YLWD’s existing insurance policies should adequately protect YLWD and its customers in the event of a loss.
- B. Funding Level – Established at a minimum level equal to 5% and a maximum level equal to 10% of the net capital assets for both the District’s water and sewer funds. In the event this fund falls below its minimum funding level, the Board will act to restore the balance above the minimum funding level within

twelve (12) months from the date that the fund fell below the minimum level.

<b>Levels</b>	<b>Water</b>	<b>Sewer</b>
Minimum	5%	5%
Target	67% of Maximum	67% of Maximum
Maximum	10%	10%

<b>Levels</b>	<b>Water</b>	<b>Sewer</b>
Minimum	\$5,813,701	\$1,899,951
Target	\$7,790,359	\$2,545,934
Maximum	\$11,627,401	\$3,799,901

- C. Events or Conditions Prompting the Use of the Emergency Reserve – This reserve shall be utilized to cover unexpected losses experienced by the District as a result of a disaster or other unexpected loss. Any reimbursement received by the District from insurance companies as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss.

### 5.1.3 Capital Replacement Reserve

- A. Definition and Purpose – Established to provide funding for general use on capital projects as well as capital repair and replacement funding as the District’s infrastructure deteriorates over its expected useful life. In addition, funding is to provide for non-scheduled capital asset repair and replacement and other capital related expenses.
- B. Funding Level – The Board-approved 2010 Asset Management Plan recommended that the minimum level equal \$1,820,000 for the water fund and \$345,000 for the sewer fund. The minimum target level for each reserve fund is at least 100% of the current Fiscal Year capital budget plus 100% of the subsequent Fiscal Year capital budget. The target levels in these reserve funds will fluctuate depending on the capital improvement plan and timing of the projects. Therefore, no maximum level will be established. In the event these fund falls below the minimum funding level, the Board will act to restore the balance above the minimum funding level within twelve (12) months from the date that the fund fell below the minimum level.

<b>Levels</b>	<b>Water</b>	<b>Sewer</b>
Minimum	\$5,533,845	\$345,000
Target	67% of Maximum	67% of Maximum
Maximum	\$8,531,845	\$2,267,699

<b>Levels</b>	<b>Water</b>	<b>Sewer</b>
Minimum	\$5,533,845	\$345,000
Target	\$5,716,336	\$1,519,358
Maximum	\$8,531,845	\$2,267,699

- C. Events or Conditions Prompting the Use of the Capital Replacement Reserve – Through the annual budget process, staff shall recommend anticipated asset replacement and capital improvement projects. The Board of Directors shall take action to approve recommended project appropriations from the capital replacement reserve. Should unplanned replacement be necessary during any fiscal year, the Board of Directors may take action to amend the budget and appropriate needed funds as required.

**5.1.4 Rate Stabilization Reserve**

- A. Definition and Purpose – Established to assist in smoothing out water rate increases. This reserve is governed by the District’s bond covenants and funds deposited into this reserve are treated as operating revenues in the fiscal year designated by the District and will be treated as such in fiscal years of such designation for the purposes of computing the District's debt service coverage ratio.
- B. Funding Level – Established at a maximum level of 20% of budgeted water sales for the current fiscal year. The Board of Directors have the option of funding the Rate Stabilization Reserve at a lower level.

Levels	Water
Minimum	0%
Target	67% of Maximum
Maximum	20%

Levels	Water
Minimum	\$0
Target	\$3,957,692
Maximum	\$5,907,004

- C. Events or Conditions Prompting the Use of the Rate Stabilization Reserve – The reserve can be used during any year where other revenues are not sufficient to meet the required debt service coverage ratio or when the maximum level in the reserve is reached.

**5.2 Board Designated Restricted Reserves**

These are funds held to either satisfy limitations set by external requirements established by creditors, grant agencies or law, or to Only be used for Examples include stipulated bond covenants and reserves held with a fiscal agent.

**5.2.1 Conservation Reserve**

- A. Definition and Purpose – Established to provide funding for District-wide conservation efforts.

- B. Funding Level – Funding shall be established as the net result of administrative penalties assessed less allowed expenditures of each fiscal year.

<b>Levels</b>	<b>Water</b>
Minimum	0%
Maximum	\$147,000

- C. Events or Conditions Prompting the Use of the Conservation Reserve – This reserve may be used to fund district-wide conservation efforts in relation to, but not limited to, salary and related, maintenance, and material expenses for leak detection, conservation efforts, and other allowable expenses outside the normal cost of service for each fiscal year.

### 5.2.2 Employee Liability Reserve

- A. Definition and Purpose – The purpose is to cover employees' accrued vacation and other compensatory time and to ensure the complete funding associated with the liability incurred for employees whom have met the requirements necessary for district paid health benefits at retirement.

- B. Funding Level – Funding for FY18 shall be established at a minimum target level of \$273,000.

<b>Levels</b>	<b>Water</b>
Target	\$273,000

- C. Events or Conditions Prompting the Use of the Employee Liabilities Reserve – This reserve may be used in the event that operating funds are not adequate to meet vacation, compensatory and sick time paid out or retiree medical cost obligations within the current year.