

Amador Water Agency

Reserve Policy

Reviewed and Adopted
March 25, 2021

100.00 Purpose of the Policy

The Agency will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

Collectively, reserve funds enable the Agency to operate in a prudent manner, while allowing for transparency of reserve fund balances.

200.00 Policy

In order to provide adequate funding to meet the Agency's short-term and long term plans, the Agency will have reserve accounts to:

- Minimize adverse annual and multi-year budgetary impacts from anticipated and unanticipated expenditures, thus minimizing the possibility of unplanned service fees or rate fluctuations.
- Strengthen the financial stability of the Agency against present and future uncertainties in an ever-changing environment.

200.10 Reserve Fund

The Agency shall maintain two reserve funds that collectively comprise the Agency's reserve fund balance. The reserve funds will be classified as – Operations and Maintenance Reserve Fund and Capital Replacement Reserve Fund with distinction among the funds that determines how reserve amounts can be spent. Such financial assets are to be utilized only as directed by the Board.

200.20 Operations and Maintenance Reserve Fund

Financial assets held primarily in the form of cash and cash-equivalents for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The Agency shall target to maintain a reserve equal to 3 months of annual operating expenses.

200.30 Capital Reserve Fund

Financial assets held for purposes of funding Agency capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. Through the annual budget process, staff shall recommend capital replacement

projects and any necessary appropriations from this fund. The Agency shall target to maintain a Capital Reserve Fund of 1% of asset value (net of depreciation).

300.00 Authority

The General Manager is responsible for the appropriate accounting and regular reporting of the Agency's reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

400.00 Procedure

Agency staff will report reserve fund balances to the Board of Directors on a quarterly basis.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five-year period to the established or re-established target as directed by the Board.

Reserves falling below target may also result in Board action to increase rates. If so, the rate increase will be developed with a target of restoring reserves to target minimums within two years.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of revenue dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

500.00 Policy Review

This Policy will be reviewed annually as part of the budget adoption process.