

# SAN BERNARDINO MUNICIPAL WATER DEPARTMENT

## *POLICIES & PROCEDURES MANUAL*

### POLICY 54.010 - RESERVE POLICY

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#### **POLICY:**

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. San Bernardino Municipal water Department ("Department" or "SBMWD") will at all times strive to have sufficient funding available to meet its operating, capital and debt service obligations. Reserve funds for the Water, Sewer Treatment and Sewer Collection funds, as applicable, will be accumulated and maintained to allow the Department to fund operation expenses and capital expenditures in a manner consistent with its Annual Operating and Capital Improvement Budget and avoid significant customer rate fluctuations due to changes in cash flow requirements.

Through a variety of policy documents and plans, including the Department's strategic plan, Master Plans and other financial policies, the Water Board ("Board") has set forth a number of long-term goals for the Department. A fundamental purpose of the Department's policy documents and plans are to link what must be accomplished with the necessary resources to successfully do so.

The Board may designate specific reserves and maintain minimum balances consistent with statutory obligations that it has determined to be in the best interest of the Department. The policy directives outlined in this document are intended to ensure SBMWD has sufficient funds to meet current and future needs. Reserve balances will be reviewed by Department staff and the Board during the preparation and approval of the Annual Operating and Capital Improvement Budget.

**TYPES OF RESERVES:****A. Operating Reserve**

**Purpose.** The Operating Reserve is established to ensure adequate cash flow to meet day-to-day expenses. In the short term, cash inflows do not always meet cash outflows. This reserve will ensure those short-term variances do not affect the day-to-day operations of the Department.

**Target Balances.** The Operating Reserve target balance shall be 45 days of the operating expenses budget for the Department's Funds, as applicable.

**Funding.** Operating Reserves for all funds shall be funded immediately with the adoption of this policy. Ongoing funding of this reserve shall be derived from current revenues and budgeted transfers.

**B. Rate Stabilization Reserve**

**Purpose.** The Rate Stabilization Reserve is established to offset revenue risk associated with low service demand years. If revenues do not materialize to fund expenses, the use of this reserve normalizes revenues without the need to increase rates. In years where revenues exceed expenses, the reserve is replenished. Before utilizing this reserve, staff shall identify areas to cut expenses in order to minimize use of the reserve monies.

**Target Balance.** The minimum target balances for the Department's Funds shall be twenty percent (20%) of their respective budgeted sales. Should the reserve balance rise above specific target amounts due to a string of years of above normal revenue or should the reserve balance fall below the target level, staff will advise the Water Board and recommend appropriate action.

**Funding.** The Department's Rate Stabilization Reserve shall be funded over a period of no more than five (5) years from the fiscal year this policy is adopted in order to reach the target balance. Ongoing funding shall originate from current revenues or transfers from other reserves as authorized by the Water Board.

### **C. Emergency Replacement Reserve**

**Purpose.** The Emergency Replacement Reserve is established to minimize the impact of unforeseen fixed asset and operating expenditures. Use of these funds shall be limited to significant capital asset acquisitions, repairs and improvements, and emergency operating costs.

**Target Balances.** The target balances for each of the Department's Funds Emergency Replacement Reserve shall be two percent (2%) of the total book value of their respective capital assets from the previous fiscal year. If the reserve balance falls below the target level, staff will advise the Water Board and recommend appropriate action.

**Funding.** The Water Fund Emergency Replacement Reserve shall be funded over a period of no more than ten (10) years from the fiscal year this policy is adopted in order to reach the target balance. Ongoing funding shall originate from current revenues or transfers from other reserves as authorized by the Water Board.

### **D. Capital Replacement Reserve**

**Purpose.** The Capital Replacement Reserve is established to assist with funding new capital assets or the replacement of capital assets when they reach the end of their useful lives. Use of these funds shall be limited to significant capital asset acquisitions, repairs and improvements, and emergency operating costs.

**Target Balances.** The target balances for each of the Department's Funds Capital Replacement Reserves shall be based on a rolling 5-year average of the Funds Capital Improvement Plan. If the reserve balance falls below the target level, staff will advise the Water Board and recommend appropriate action.

**Funding.** The Capital Replacement Reserve shall be funded according to future capital needs. Funding may originate from current revenues, acquisition fees, capacity fees and excess revenues provided other reserve funds are not impaired.

### **E. Debt and Other Externally Restricted Reserves**

Debt and other externally restricted reserves shall be funded according to the agreements imposing said restrictions. No amounts set aside for these restricted reserves shall be available for designation to other reserves, and amounts shall be used only in accordance with their permitted use.

**Policy Review**

Board Approved:	<u>2/19/2013</u>
No Changes:	<u>7/2018</u>
No Changes:	<u>7/2019</u>
No Changes:	<u>7/2020</u>
Rev Board Approved:	<u>9/28/2021</u>