

**RESOLUTION NO. 984-14**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE MOJAVE WATER AGENCY  
ESTABLISHING RULES AND REGULATIONS RELATING TO AGENCY RESERVES**

**WHEREAS**, the Agency is required to set aside funds in order to assure the payment of certain debts; and

**WHEREAS**, the Agency is obligated to set aside funds by both Board directive and contracts based on certain revenue types or capital expense needs; and

**WHEREAS**, the voters of California on November 6, 1979 added Article XIII B of the State Constitution placing various limitations on the appropriations of the State and local governments; and amended it by the Measure approved on June 5, 1990; and

**WHEREAS**, the Agency is required to purchase water and replenish ground water and only has one primary source of water; and

**WHEREAS**, the Agency must be prepared for sudden emergencies and unexpected cost increases; and

**WHEREAS**, the goals of the reserve policy is to mitigate risk from rate/revenue instability, emergency with asset failure, volatility in working capital, as well as to achieve/maintain a certain credit rating; and

**WHEREAS**, a sound reserve fund financial policy will aid in the Agency maintaining financial solvency, provide guidelines for sound financial management with an overall long-range perspective and to enhance financial management transparency through improved public confidence and elected officials' credibility; and

**WHEREAS**, the Board of Directors of the Mojave Water Agency desires to adopt a set of rules to establish a reasonable and sound reserve policy;

**NOW THEREFORE, BE IT RESOLVED** that the Board of Directors of the Mojave Water Agency hereby adopts the following Reserve Fund Policy:

**APPROVED AND ADOPTED** this 27<sup>th</sup> day of March 2014.

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Beverly Lowry, President

ATTEST:

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Doug Shumway, Secretary

## RESERVE FUND POLICY

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**Section 1. Title of Resolution.** This resolution shall be known as the Reserve Resolution of the Mojave Water Agency (“Agency”).

**Section 2. Purpose of Rules and Regulations.** The purpose of these rules and regulations is to provide specific rules with which to establish and maintain reserve funds.

**Section 3. Reserve Categories.** The reserves are separated into three major categories, (1) Risk Mitigation for timing of cash receipts from taxes and water sales, (2) risk mitigation for volatility in revenues and (3) risk mitigation for unknown emergencies and capital. Within those categories are sub-categories, which identify the purpose for the reserve, the source of funding, the availability or liquidity of funds required in the reserve, as well as dollar thresholds.

### **RISK MITIGATION FOR TIMING OF CASH RECEIPTS FROM TAXES AND WATER SALES**

#### **I. Operations & Maintenance Reserve**

- a. **Purpose:** Working capital for State Water Project variable costs and to bridge the timing of tax receipts against operation and maintenance costs.
- b. **Target level:**
  - i. Water: 80% (292 days) to account for Watermaster payments being made once a year.
  - ii. Property Taxes: 50% (180 days) to account for timing of receipt of property taxes coming in two large payments.

#### **II. Bond Reserve**

- a. **Purpose:** Working capital for DWR loans and other outstanding debt
- b. **Target level:** 50% - 100% of annual debt payments

#### **III. DHCCP Contingency Reserve**

- a. **Purpose:** Working capital for anticipated future DWR costs for the Delta Habitat Conservation and Conveyance Program fixed cost.
- b. **Target level:** Property taxes: 50% (180 days) to account for timing of receipt of property taxes coming in two large payments.

## RISK MITIGATION FOR VOLATILITY IN REVENUE

### I. Rate Stabilization Reserve

- a. **Purpose:** To mitigate against annual swings in both taxes and State Water Project (SWP) costs and to provide funding to pursue a goal of no more than a 5% increase in water rates each year.
- b. **Target level:**
  - i. SWP Costs: Based on 20 years of data for annual fluctuations (currently \$1.7 million).
  - ii. Property Taxes: 15% of tax revenue for unanticipated economic decline.

## RISK MITIGATION FOR UNKNOWN EMERGENCIES AND CAPITAL

### I. Capital Reserve

- a. **Purpose:** To mitigate against unforeseen emergency capital repairs and replacement.
- b. **Target level:** 4% of MWA capital assets (Two times the FEMA recommended level).

### II. Contingency Reserve (Rainy Day Fund)

- a. **Purpose:** To mitigate against unforeseen expenses and/or larger than anticipated negative impacts on revenues.
- b. **Target level:** 10% of MWA operating expenses.

## RISK PROFILE OF RECOMMENDED RESERVES

