

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 restricted reserve funds. Reserves are noted on the Agency’s Annual Comprehensive Financial Statements in compliance with Generally Accepted Accounting Principles with regard to their funding source and any restricted use thereof.

Section 3. Definitions

Working capital: The total current assets less total current liabilities.

Current assets: Assets that are available as cash or cash equivalents within the next 12 months.

Current liabilities: Liabilities owed within the next 12 months.

Section 4: 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 State Water Project imported water allocations 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.

1. 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) of Watermaster annual replacement and makeup obligation revenue to account for Watermaster payments being made once a year.
- ii. **Taxes:** 50% (180 days) of all tax revenue to account for timing of receipt of property taxes coming in two large payments typically in December and April.

II. Bond Reserve

- a. **Purpose:** Working capital for outstanding debt.
- b. **Target level:** 100% of annual debt payments.

2. 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: 10% of annual for fixed costs (not variable delivery costs).
 - ii. Property Taxes: 15% of tax revenue for unanticipated economic decline.

II. Delta Conveyance Project Contingency Reserve

- a. **Purpose:** Working capital for anticipated future payments for the Delta Conveyance Project.
- b. **Target level:** Two-years of estimated debt payments for the Delta Conveyance Project based on the most recent estimates provided by the Delta Conveyance Authority.

III. Water Purchase Reserve

- a. **Purpose:** To mitigate against the annual swings in State Water Project imported water allocation and to purchase water at an opportune time (as determined by the Board) for water storage within the basin; including water brought in for the drought resiliency program.
- b. **Target level:** 200% of the annual drought resiliency program cost for imported water.

3. 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

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 annual operating expenses.

Section 5: Use and Replenishment. Reserves are established in order to mitigate short-term economic conditions the Agency may encounter and known cash timing of the Agency's finances. The Agency will use reserves when appropriate, seek to replenish reserves to the target balance and plan to spend reserves in excess of the target level in accordance with the principals detailed in this policy.

1. Use of Reserves Resulting in Cash Below Target Levels

Reserves are intended to be used to overcome short-term economic conditions and emergencies for which working capital is required. Mojave seeks to replenish reserves to target levels within one to three years of use. To replenish reserves, the budgeting process will be used to adjust and structural issues which results in the necessary use of reserves. The Board of Directors has the authority to authorize the use of reserves below target levels.

In the case of recovering from an extreme event, the Agency will use the long-term financial planning tool to develop an action-oriented plan to reduce expenditures or increase revenues to return the Agency to the desired reserve target levels.

2. Reserves in Excess of Targets

The Agency will continue to use long-term planning tools to ensure reserve funds have an associated spend plan and that reserves are not being utilized to fund ongoing recurring expenditures. Reserves can be used for funding future capital projects due to the Agency's limited availability to issue debt. Reserves can also be used to minimize future rate increases for water sales and taxes. Reserves may not be used to fund ongoing recurring expenditures which is indicative of a structural deficit that should be addressed.

Section 6: Reporting. The Chief Financial Officer (CFO) shall report and advise on the reserve levels during the annual budget process and as a part of the monthly financial reports. The CFO shall provide a forecast of the ending reserve levels and make recommendations regarding the reserve levels set forth in this policy.