



## Reserve Fund Policy

**Document Type:** Reserve Fund Policy

**Administering Entity:** General Manager, Board of Directors

**Date Approved:** December 18, 2024

**Last Amendment Date:** November 2012 (November 2008)

**Approved By:** Board of Directors Ordinance 2024-12

**Indicative Time for Review:** Bi-Annually (Every Two Years)

**Responsibility for Review:** General Manager, Board of Directors

### DISCUSSION AND INTENT OF THIS POLICY

All governments are required to report equity - assets minus liabilities - in terms of net assets.

The accumulated equity does not include net investments (funds already spent on capital assets, less outstanding debt), because net investments should not be viewed as available funds for future activities.

Clear Creek Community Service District (CCCSD) is a Special District and has a constitutional authority under Article XIII B to establish such reserve funds as the Board of Directors deem "reasonable and proper". Reserves are developed as part of an overall financial management strategy for a district, and CCCSD is a fiscally responsible local government agency pursuing a sound reserve policy.

CCCSD is responsible for building and maintaining millions of dollars' worth of infrastructure critical to the continued long-term economic health of the CCCSD and the southern Shasta County area.

CCCSD's cash reserve accounts were established as part of the overall financial management strategy for the district.

Reserves are the foundation of the sustainable delivery of services. Through reserves the CCCSD offers customers/ratepayers and taxpayers significant benefits including:

- Savings by balancing budgets
- Stable rates
- Well maintained infrastructure
- Investment in the future
- Ready for emergency situations

CCCSD complies with accounting requirements when reporting reserves.

The intent of this policy is to:

- Establishes a comprehensive reserve policy to ensure use of the accumulated public funds cover only reasonable and necessary expenses.
- Distinguishes between restricted and unrestricted net assets. Establishes distinct purposes for all reserves held by the district.
- Establishes target levels where appropriate, i.e., minimum, and maximum amounts for the accumulation of reserves necessary for maintaining the CCCSD's credit worthiness and to minimize external borrowing and interest expense.
- Identifies events or conditions that prompt the use of each. Conforms to the CCCSD's plan to acquire or build capital assets.
- Receives Board of Directors approval in the form of an Ordinance adopting the policy.
- Requires periodic review of reserve balances and the rationale of maintaining such balances.

## **RESERVE POLICY**

The District segments its reserves into the following categories:

- **Unrestricted General Reserves** – held to facilitate the operations of the CCCSD like working capital for cash flow requirements, operational reserves for flexibility to respond quickly to unforeseen events or emergency repairs or water quality issues.
- **Designated Restricted Funds** - held to satisfy specific purposes set by requirements of creditors, law, grantors, contributors, statutes or by internal requirements of ordinances or contracts.
- **Discretionary Reserve Funds** - not required by creditors, law, grantors, statute, etc. The purpose of establishing these funds is to ensure adequate levels of reserves or funds are designated for legitimate purposes that are critical to the success of stable short- and long-term operation of the District.

## **DESCRIPTION OF RESERVE POLICY**

**Unrestricted General Reserves** – held to facilitate the operations of the CCCSD, like working capital for cash flow requirements, operational reserves for flexibility to respond quickly to unforeseen events or emergency repairs or water quality issues.

- **General Reserves** – are replenished through the District’s budget process as “additions to reserves”. This account is the General Fund Checking for the day to day operations and expenses of the District. The number of additions are based on the needs of the District. The Board approves the additions to reserves through the budget process and reviews annually. Funds held in General fund Checking (Asset Account 5000).

**Designated Restricted Funds** –held to satisfy specific purposes set by requirements of creditors, law, grantors, contributors, statutes or by internal requirements of ordinances or contracts. Detail descriptions below:

- USBR Emergency Reserve (CD)
- Filtration Plant Reserve (CD)
- Filter Plant Repayment Reserve (Yearly Loan Payment – Funded by Fee)
- Backwash Recycle Water Reserve (Yearly Loan Payments & 1 Year’s Payment – Funded by Fee)
- WIIN Act Fee Repayment Reserve (Funded by Fee)
- Backwash Ponds Carr Fire Project Reserve
- Carr Fire Funds Account
- Customer Water Deposits

### **Detailed Description**

- **USBR Emergency Reserve (CD)** –held to satisfy the requirements contained in the long-term water service contract with the Bureau of Reclamation. The minimum amount of this fund should be \$35,000 as established in the contract. The current balance is held in a CD (Certificate of Deposit) Current Assets Account 7001. The triggering event for use is a declaration by the Board of Directors that an emergency situation exists on the conduit, and is likely to jeopardize health and safety standards, fish, and wildlife, etc., if immediate corrective action is not taken. The CCCSD is contractually obligated to replenish the funds if depleted within years.
- **Filter Plant Reserve (CD)** – held to satisfy the requirement by the Department of Water Resources Revolving Loan Fund. This reserve is required to equal two semi- annual payments of the DWR filter plant debt service, in the amount of \$244,000. The current balance is held in a CD Asset. The triggering event for use is default on the loans on the part of CCCSD. In that instance, DWR would seize the funds to satisfy the amount due, and the district would then be contractually obligated to replenish the fund.

- **Filter Plant Repayment Reserve (Loan Payment Account)** – a separate bank account and has been established to deposit the \$7.55 fee collected on the monthly water bills included in the Base Water Rate to make the semi-annual payments for the filter plant loan.
- **Backwash Recycle Project Reserve (Loan Payment)** – held to satisfy the requirement of the California State Water Resources Control Board for Publicly Owned Treatment Works (POTW) Construction Financing. Clean Water State Revolving Fund Project No. C-06-8130-110. Project Funding Agreement No. D1501028 was \$933,143.00 by the State with \$466,572.00 in principle to be paid back to the State and Contingent Principal Forgiveness of \$466,571.00. Term of the Agreement is from March 1, 2016 to June 31, 2047. Authorized by Ordinance 2015-06 a separate bank account (Asset Account 5025) has been established to deposit the \$.38 Backwash Recycle Project Fee collected on the monthly water bills included in the Base Water Rate to make payments to the Backwash Recycle Project loan. This account is restricted for the annual loan payments and to hold the required amount for one year’s principle and interest payment as per loan agreement – minimum balance (\$17,689.08) till end of loan agreement.
- **WIIN Act Fee Repayment Reserve 72225** –Contract No. 14-06-200-489-A-P between the U.S. Department of the Interior Bureau of Reclamation and CCCSD in the amount of \$859,452 was approved by the board in December of 20220 and had a final payment due December 1, 2023. This WIIN Act payment of the District’s infrastructure obligation converted its contract for 15,300AFY to a perpetual contract. The District made no payments until a credit of \$207,952 was found in early 2021 and applied as a payment. After that credit/payment, the obligation was \$651,500 and the District calculated the cost to customers during the Prop 218 Rate Schedule a fee of \$1.88. This was based on the customers repaying this cost over a 12-year period. Monies were paid from the General Fund Checking Account in lieu of getting an outside loan to pay back this obligation – essentially borrowing from operating reserves for two fiscal years. Final payment on the \$651,500 obligation was made in October of 2023 and converted the contract to a perpetual one. After the \$1.88/month fee was established this reserve account was not established for a number of months and the fee was absorbed into the General Checking. This amount is \$27,496.78 resulting in the final amount “borrowed” from the General Checking to be: \$624,003. This Reserve fund is the \$1.88 fee that is included in the Base Water Rate is designated for this reserve and is transferred annually to the General Fund Checking from WIIN Act Repayment Asset Account 5010. The repayment of the General Fund WIIN act payment loan started in FY 24 as \$55,000/year reserve will stay in place until the funds are paid back in full approximately 10 years.
- **Backwash Ponds Carr Fire Project Reserve** –held to satisfy the Grant Program FEMA-4282-DR-CA and Cal OES ID: 089-91008 in the amount of \$1,903,821. The 2018 CARR Fire destroyed the adjacent watershed to the CCCSD backwash recycle ponds and surface

runoff and subsurface flow has increased, which impacts the ability of the ponds to recycle backwash water. The project includes construction of an underdrain pipe network, recycle pumps, structural concrete bottom and side slopes to the ponds, pond overflow outlets and SCADA replacement. The total project had an original estimate of \$3.6 Million and was updated to \$6 million after design and construction bids were received. Money received through Grant Program FEMA-4282-DR-CA and Cal OES ID: 089-91008.

- **Carr Fire Account** – Asset Account 5035 includes funds received from JPIA after the Carr fire incident and used by the district for emergency repairs from the Fire. This account will need to be reconciled with JPIA, and potentially unneeded/unused funds returned.
- **Customer Water Deposits** –held in trust for customers as required by CCCSD Rules and Regulations. There is no target amount for this fund and the triggering event for use is to satisfy delinquent accounts or refund to customers under certain terms and conditions outlined in district rules and regulations. There is currently no designated account to hold these funds and they are put into the General Fund Checking Asset Account and are tracked as a Long-Term Liability 9500 on the Balance sheet.

**DISCRETIONARY RESERVE FUNDS** –not required by creditors, law, grantors, statute, etc. The purpose of establishing these funds is to ensure adequate levels of reserves or funds are designated for legitimate purposes that are critical to the success of stable short- and long-term operation of the District.

- State Loan Repayment Reserve (funded by Fee)
- Penalties Reserve
- Operational Reserve
- Capital Improvements and Modernization Reserve
- Emergency Fund Reserve
- **State Loan Repayment Reserve (Funded by Fee)** – a separate bank account has been established to deposit the \$1.00 fee collected on the monthly water bills included in the Base Water Rate for the State Loan Repayment. This amount was established for the anticipated loan or grant for system improvements. Funds are held in Asset Account and are designated now as discretionary, for current and future grant or loan needs. In 2024, the District attained a Grant Anticipation Loan from RCAC to implement the Backwash Ponds Concrete Lining project and this fund will be used for the loan costs to implement a \$6 million grant funded project.
- **Penalties Reserve** –Used for tracking purposes only during times of drought when there are penalties assessed for over usage of water. These funds are deposited into the General fund checking Asset Account.

- **Operational Reserve** – Currently funded monthly by 4.1% of the current water usage rate collected from customers each month and are designated for operations and held in Asset Account 5045. This reserve can also hold the “year end fund balance” for excess funds from an operational year and could be used for budgeting the next year as fund balance transfer revenue. The triggering event for use is reserve funding approval by the Board of Directors. Target: \$1,000,000
- **Capital Improvements and Modernization Reserve 75200** –a capital improvement fund for infrastructure additions and improvements within the distribution system. The current balance is held in Asset Account 5030. This account is funded by transferring 1.8% of the Base Rate charges collected and transferred each month at reconciliation. to allow for future storage, line loops, etc., without concern for depletion of the fund. The triggering event for use is project funding approval by the Board of Directors. Target amount is: \$1,500,000
- **Emergency Fund Reserve 75210** –held in Asset Account 5015. The triggering event for use is project funding approval by the Board of Directors for emergency situations. Target amount is: \$250,000

Reserves for agency operations can help ensure customers experience stable rates and security that CCCSD can respond to short and long-term emergencies without delay made necessary by seeking out loans, grants, etc. Once emergency and operational reserves are considered, many Districts consider other reserves like rate stabilization, major repairs and replacement and equipment upgrades.

The ability to maintain adequate reserves is critical to providing reliable, stable service insuring the district's overall financial strength. Adequate reserves directly affect the district's bond rating and ability to access favorable interest rates, securing the ability to finance and/or construct infrastructure necessary to the existing system and expand facilities for future demand.