

## **CHAPTER 14.B**

### **PARADISE IRRIGATION DISTRICT RESERVE FUND POLICY**

#### **Introduction:**

Paradise Irrigation District recognizes the importance of adopted policies relative to reserve funds. Written adopted financial policies relative to reserve funds have many benefits, and represents a critical element of sound fiscal management. Reserve funds are prudent fiscal management tools, which are a cornerstone of long-term financial planning. A written and adopted Reserve Fund Policy provides for and facilitates attainment of program and financial goals relative to the prudent accumulation and management of designated reserves and reserve funds. This Reserve Fund Policy was developed to clearly identify specific designated reserve funds. It is the intent of this Reserve Fund Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District's mission statement, the uniqueness of the District, and the philosophy of the District's Board of Directors. This policy shall be known and may be cited as the Paradise Irrigation District Reserve Fund Policy.

#### **Objectives:**

This Reserve Fund Policy has been developed to consider and appropriately provide for the following:

1. To assure continued operation and solvency of the District for the carrying out of its stated mission and purposes.
2. To maintain a financially viable District that can provide adequate levels of service.
3. To maintain and enhance the sound fiscal condition of the District
4. To maintain financial flexibility in order to be able to continually adapt to change, and permit an orderly adjustment to unanticipated events.
5. To maintain a diversified and stable long-term financial plan.
6. The accumulation and maintenance of an amount equal to the stated target fund level for each specific reserve fund created by the District.
7. The review of this policy on an annual basis in order to determine appropriate changes, additions and/or deletions.
8. To maintain a written Paradise Irrigation District Reserve Fund Policy.

#### **Reserve Fund Policy:**

In order to achieve the objectives of this Policy, the Board of Directors shall adhere to the following guidelines:

1. Reserve funds may be established from time to time by the Board of Directors as an important component of sound financial management to meet both short and long-term financial objectives, and to ensure prudent financial management practices.
2. Reserve funds may be designated by the Board of Directors as a "restricted reserve fund" or "non-restricted reserve fund".
3. Restricted reserve funds shall be segregated, and limited in use to specific and designated purpose(s) as defined and established by the Board of Directors.

4. Assets of a restricted reserve fund shall be held separately from the general fund, and shall only be used for the stated purpose(s) of the specific reserve fund.
5. All non-restricted revenue shall be held in the operating fund until the Board transfers reserves to other funds.
6. Non-restricted reserve funds shall have no reference to specific accounting assets.
7. Non-restricted reserve funds do not require the physical segregation of funds.
8. All investment earnings from non-restricted reserve funds shall be credited to the District's general Water Fund, unless otherwise stated herein.
9. Board of Director approval shall be required prior to the expenditure of restricted reserve funds, unless otherwise stated herein.
10. The Board of Directors shall maintain a written Paradise Irrigation District Reserve Fund Policy.
11. The Board of Directors shall annually review the Paradise Irrigation District Reserve Fund Policy at a public meeting in order to determine appropriate changes, additions, and/or deletions.

### **Reserve Funds:**

The Board of Directors hereby establishes and designates the following reserve funds:

Priority Reserve			Target Formula	
			Base Calculation	MinMax
Non-Restricted				
1	Operating Fund	Operating Budget, including debt service & pipeline	17%	100%
2	Water Rate Stabilization Fund	Budget Water Revenue	10%	20%
3	Emergency Fund	Operating Budget, including debt service & pipeline	25%	25%
4	Drought Management Fund	Budgeted Consumption Revenue	25%	50%
5	Equipment Replacement Fund	Accumulated Equipment Depreciation	Current	100%
6	Long Term Capital Fund	10 Year Capital Plan	10%	100%
Restricted				
Sick/Annual Leave Fund			As required by contract or law	
Facility Capacity Fund			As required by contract or law	
Bond Reserve Fund			As required by contract or law	
Debt Proceeds Construction Fund			As required by contract or law	
PFD Reserve Fund			As required by contract or law	

### **Target Fund Levels:**

The Board of Directors shall establish a stated target fund level for each non-restricted reserve fund.

### **Annual Evaluation:**

The CFO shall perform a review and analysis of each designated reserve fund for presentation to the Board of Directors at a public meeting upon the occurrence of the following:

1. Upon consideration by the Board of Directors during the Board meeting in July.
2. Upon any significant change to and/or expenditure(s) from a designated reserve fund.
3. Upon determination that a fund balance is less than the established target fund level for a designated reserve fund.

# **OPERATING FUND**

## **Fund Purpose:**

The purpose of the Operating Fund is to accumulate sufficient reserve funds necessary to satisfy the general cash flow demands and requirements of the District. This reserve fund will preserve credit worthiness, ensure adequate financial resources are available for timely payment of District obligations, and provide liquidity throughout the fiscal year.

## **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Operating Fund”.
2. The Operating Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District’s annual budget the Board may transfer funds to/from the Operating Fund.
4. The District Manager/CFO is authorized to approve the disbursement of Operating Funds for payment of expenses that have prior board approval.
5. The Operating Reserve Fund may be invested in financial institutions and instruments which maintain the highest level of liquidity, such as checking, savings and LAIF.
6. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Operating Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 17% of operational budget including debt service and pipeline, and a maximum of 100%, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the general fund equal to approximately two (2) to three (3) months budgeted expenditures for the fiscal year.
2. For the purpose of this policy, budgeted expenditures shall include all expenditures associated with the following:
  - a. Operating Expenses
  - b. District Installed Pipeline Projects
  - c. Debt Service

# **WATER RATE STABILIZATION FUND**

## **Fund Purpose:**

The purpose of the Water Rate Stabilization Fund is to establish a means to provide more stable water service charges to the District's customers. The Water Rate Stabilization Fund will be used to accumulate reserves for District use during periods of unanticipated fluctuations in general fund revenues. Unanticipated fluctuations in general fund revenues include, but are not limited to, periods of seasonal weather changes. The Water Rate Stabilization Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and will provide for more stable rates.

## **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Water Rate Stabilization Fund".
2. The Water Rate Stabilization Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Water Rate Stabilization Fund.
4. The District Manager/CFO is authorized to approve the disbursement of Water Rate Stabilization Funds for payment of expenses that have prior board approval.
5. The Water Rate Stabilization Fund may be invested in financial institutions and instruments.
6. All investment earnings from the Water Stabilization Fund shall be credited to the District's operating fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Water Rate Stabilization Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 10% of water rate revenue (including service charge and consumption revenue), and a maximum of 20%, unless otherwise directed by the Board of Directors at a public meeting.

# **EMERGENCY RESERVE FUND**

## **Fund Purpose:**

The purpose of the Emergency Fund is to accumulate sufficient financial reserves necessary to ensure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disasters and/or other emergencies.

## **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Emergency Fund".
2. The Emergency Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Emergency Fund.
4. The Emergency Fund shall be expended solely for the purpose of responding to and maintaining District operations during a natural disaster and/or emergency.
5. The District Manager/CFO is authorized to approve the disbursement of Emergency Reserve Funds for payment of expenses that have prior board approval.
6. Upon expenditure of any Emergency Funds, the CFO shall notify the Board of Directors at the earliest possible opportunity.
7. Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund.
8. All investment earnings from the Emergency Fund shall be credited to the District's operating fund.
9. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Emergency Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 25% of operational budget including debt service and pipeline, unless otherwise directed by the Board of Directors at a public meeting.

# **DROUGHT MANAGEMENT FUND**

## **Fund Purpose:**

The purpose of the Drought Management Fund is to establish a means to provide more stable water service charges to the District's customers. The Drought Management Fund will be used to accumulate reserves for District use during periods of unanticipated reductions in general fund revenues. Unanticipated reductions in general fund revenues include, but are not be limited to, periods of drought. The Drought Management Reserve Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and provide for more stable rates.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Drought Management Fund".
2. The Drought Management Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Drought Management Fund.
4. The District Manager/CFO is authorized to approve the disbursement of Drought Management Funds for payment of expenses that have prior board approval.
5. All investment earnings from the Drought Management Fund shall be credited to the District's operating fund.
6. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Drought Management Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 25% and a maximum of 50% of budgeted consumption revenue, unless otherwise directed by the Board of Directors at a public meeting.

# **LONG TERM CAPITAL FUND**

## **Fund Purpose:**

The purpose of the Long Term Capital Fund is to accumulate sufficient reserve funds necessary to ensure timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Long Term Capital Fund".
2. The Long Term Capital Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Long Term Capital Fund.
4. Monies transferred into the Long Term Capital Fund shall be expended solely for the construction of new and/or replacement water system infrastructure and capital assets.
5. The District Manager/CFO is authorized to approve the disbursement of Long Term Capital Funds for payment of expenses that have prior board approval.
6. All investment earnings from the Long Term Capital Fund shall be credited to the District's operating fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Long Term Capital Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 10% of the 10 year capital budget total and a maximum of 100%, unless otherwise directed by the Board of Directors at a public meeting.

# EQUIPMENT REPLACEMENT FUND

## Fund Purpose:

The purpose of the Equipment Replacement Funds is to accumulate sufficient reserves necessary to ensure timely replacement and upgrade of the District's vehicles, mobile equipment, and appurtenances thereto. Safe, reliable and up-to-date vehicles and equipment, in good working order, are essential for the provision of public services in a timely and professional manner. Due to the need for depreciation and replacement of vehicles and other mobile equipment it is desirable for the District to set aside funds on an on-going basis for this purpose.

## Policy:

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Equipment Replacement Fund".
2. The Equipment Replacement Reserve Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Equipment Replacement Fund.
4. Funds transferred from the Equipment Replacement Fund shall be expended solely for the purpose of replacement and upgrade of existing District vehicle, mobile equipment and appurtenances thereto.
5. The District Manager/CFO is authorized to approve the disbursement of Equipment Replacement Funds for payment of expenses that have prior board approval.
6. The allocation amount shall be reviewed every five (5) years for appropriate vehicle and equipment retention schedules, depreciation schedules and acquisition costs.
7. All investment earnings from the Equipment Replacement Reserve Fund shall be credited to the District's operating fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## Target Fund Level:

The target fund level for the Equipment Replacement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of current year equipment depreciation and maximum of total equipment accumulated depreciation, unless otherwise directed by the Board of Directors at a public meeting.



# **SICK/ANNUAL LEAVE FUND**

## **Fund Purpose:**

The purpose of the Sick/Annual Leave Funds is to accumulate sufficient reserves necessary to ensure payment of outstanding accrued sick and/or annual leave upon a District employee's separation of service from the District. Pursuant to the current Memorandums of Understanding by and between the District and designated employee representative bargaining groups, District employees may accumulate annual leave in accordance with a maximum accumulation schedule. Any employee separated from the service of the District shall receive pay for all accumulated annual/sick leave in accordance with designated schedules. It is desirable for the District to set aside funds on an on-going basis for this purpose.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Sick/Annual Leave Fund".
2. The Sick/Annual Leave Fund shall be designated as a restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Sick/Annual Leave Fund.
4. Monies transferred into the Sick/Annual Leave Fund shall be expended solely for the purpose of compensation to District employees upon separation of service from the District for accumulated sick/annual leave.
5. The District Manager/CFO is authorized to approve the disbursement of Sick/Annual Leave Fund Funds for payment of expenses that have prior board approval.
6. All investment earnings from the Sick/Annual Leave Fund shall be credited to the District's operating fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Sick/Annual Leave Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of the current accrued vacation and sick liability, unless otherwise directed by the Board of Directors at a public meeting.

# **FACILITY CAPACITY FEE FUND**

## **Fund Purpose:**

The purpose of the Facility Capacity Fund is to collect fees from new service connections (specific connection fees) for capacity increasing related projects. This reserve fund will provide capital funds for projects that increase capacity to the District

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Facility Capacity Fee Fund”.
2. The Facility Capacity Fee Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all Capacity Fee monies from the Operating Fund to the Facility Capacity Fee Fund upon collection.
4. Approval for expenditures from the Facility Capacity Fee Fund shall require the affirmative approval by the Board of Directors at a duly noticed public meeting.
5. All investment earnings from the Facility Capacity Fee Fund shall be credited to the District’s operating fund.
6. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

# **BOND RESERVE FUND**

## **Fund Purpose:**

The purpose of the Bond Reserve Fund is governed by legal bond covenants for the District's revenue bonds. Bond covenants require that this fund be maintained at a level sufficient to fund the maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service obligation.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Debt Reserve Fund".
2. The Debt Reserve Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all Bond Reserve monies from the Operating Fund to the Bond Reserve Fund upon collection.
4. Bond Reserve Funds for each revenue bond issue will be used to make the last two semi-annual debt service payments for that issue.
5. The District Manager/CFO is authorized to approve the expenditure of Bond Reserve Funds, with prior approval of the Board of Directors, for the purpose expressly stated herein.
6. Reserve funds related to state loans shall be treated identically to revenue bond reserve funds.
7. All investment earnings from the Debt Reserve Fund shall be credited to the Debt Reserve Fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Debt Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of the legal requirement by law.

# **DEBT PROCEEDS CONSTRUCTION PROJECT FUND**

## **Fund Purpose:**

The purpose of the Debt Proceeds Construction Project Fund is governed by loan contracts for a specific Project. Bond documents require that these funds be used for the specific project.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Debt Proceeds Construction Project Fund”.
2. The Debt Proceeds Construction Project Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all Bond Proceed monies from the Operating Fund to the Bond Proceeds Construction Project Fund upon collection.
4. Debt Proceeds Construction Project Fund will be used to construct the specific project as previously approved by the Board.
5. The District Manager/CFO is authorized to approve the expenditure of Debt Proceeds Construction Project Funds, with prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the Debt Proceeds Construction Project Fund shall be credited to the Debt Proceeds Construction Project Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Debt Proceeds Construction Project Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to the remaining bond proceeds borrowed for a specific project.

# **PFD RESERVE FUND**

## **Fund Purpose:**

The purpose of the PFD Reserve Fund is governed by legal contract between the District and the PFD. The contract requires that funds spent must be used to install or repair fire hydrants. The funds can also be used to increase fire flows by replacing water pipes with a specific agreement between the PFD and the District.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “PFD Reserve Fund”.
2. The PFD Reserve Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all PFD Reserve monies from the Operating Fund to the PFD Reserve Fund upon collection.
4. PFD Reserve Funds will be used for the maintenance and installation of the PFD hydrant system, and to increase fire flows by replacing water pipes with specific agreement between PFD and the District.
5. The District Manager/CFO is authorized to approve the expenditure PFD Reserve Funds, with prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the PFD Reserve Fund shall be credited to the PFD Reserve Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the PFD Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of the contract requirement.