Chapter 5.03.220
Cash Reserves Policy

Section 5.03.220.01
Purpose

The purpose of the RMWD Reserve Policy is to ensure that the District will, at all times, have sufficient funding available to meet the operating, capital and debt service cost obligations. Reserves will be managed in a manner that allows the District to fund costs consistent with its Capital Improvement Program and Water and Wastewater Master Plans while avoiding significant rate fluctuations due to changes in cash flow requirements. Adequate reserves and sound financial policies promote RMWD's bond ratings in the capital markets, provide financing flexibility, avoid potentially restrictive debt covenants, and ensure the District's customers of stable rates. The reserve policy shall cover all reserve funds of the District. At the end of each fiscal year, compliance with the Reserve Policy will be reported to the District's Board of Directors.

Section 5.03.220.02
Operating Reserves

Rainbow Municipal Water District shall maintain one Operating Reserve fund in cash and cash equivalents for both the Water and Wastewater operations. The reserve balance shall be limited to two months of budgeted operating expenses as determined by the monthly average of budgeted operating expenses (does not include the cost of water or depreciation). The reserve balance limits shall be determined during the annual budget process.

Operating reserve deficiencies will be funded predominantly by water and sewer user rates and charges. Amounts which exceed operating reserve limits shall be transferred to Capital reserve funds.

Section 5.03.220.03
Capital Reserves

The District maintains five Capital Reserve Funds: Water Replacement, Reservoir Rehabilitation, Water Capital Projects, Wastewater Replacement, and Wastewater Expansion. The Board took action on 9/7/2005 to discontinue the funding of the Water Replacement and Water Expansion funds and combine those funds into the Water Capital Projects Fund. Capital Reserves will be used to fund infrastructure projects and will be an integral part of the District's capital plan documented in its Capital Budget as well as the Water and Wastewater Master Plans.

Capital Reserves are funded by cash collected from water and sewer capacity charges (new connections). The Capital Reserves receive additional funding from surpluses generated by water and wastewater operations (excess of revenues over expenses before depreciation).
Anticipated Capital reserve deficiencies will be funded by transfers of budgeted surplus which may result from increased rates.

Amounts accumulated in excess of both the Operating Reserve limits and Capital Reserve needs may be used, subject to Board approval and public hearing, to lower rates to curtail increasing trends in the reserve funds.

Section 5.03.220.03.01
Water Replacement Reserve

Board action of 9/7/2005 discontinued the funding of the Water Replacement Reserves and replaced this fund with the Water Capital Projects Reserve. Current reserves in this fund will be used to fund infrastructure repairs, rehabilitations, and replacement projects until funds are fully depleted.

Section 5.03.220.03.02
Reservoir Rehabilitation

Board action of 9/7/2005 discontinued the funding of the Water Expansion Reserves and replaced this fund with the Water Capital Projects Reserve. Reserves in this fund will be used to fund reservoir infrastructure rehabilitation projects to meet Department of Health Services requirements.

Section 5.03.220.03.03
Water Capital Projects Reserve

This reserve was created by Board action of 9/7/2005 to combine the Water Replacement and Water Expansion Reserves. Water Capital Projects Reserve is funded by the cash collected for water capacity charges (connections) and by surpluses generated by water operations (excess of revenue over expenses before depreciation). Reserves will be used to fund infrastructure expansion, repairs, rehabilitations, and replacement projects.

Section 5.03.220.03.04
Wastewater Replacement Reserve

Wastewater Replacement Reserves are funded partially by the cash collected for sewer capacity charges (connections) and partially by excess revenues over expenses before depreciation. The Sewer Allocation Plan determines the portion of the capacity fee that will be used for infrastructure repair, rehabilitations, and replacement projects.

Section 5.03.220.04
Wastewater Expansion Reserve

Wastewater Expansion Reserves are funded by the cash collected for sewer capacity charges (connections). The Sewer Allocation Plan determines the portion of the capacity charge that will be used for infrastructure expansion projects to accommodate new customers.

Section 5.03.220.05
Liability Self Insurance Reserve

The Liability Self Insurance Reserve is established to pay the self insurance (deductibles) portion of large or excessive liability claims. Board action has set this fund at $100,000.00. Use of these funds requires approval by the RMWD Board. Reserve deficiencies are determined and replenished annually during the budget process.

Section 5.03.220.06
Debt Service Reserve

Debt Service Reserves are established by the Trust Agreement for long-term borrowings. The reserve generally represents one year of principal and interest payments of the debt. The Debt Service Reserve is held and controlled by the Trustee as named in the bond Trust Agreement.

Section 5.03.220.07
New Water Sources Reserve

The New Water Sources Reserve, established by the RMWD Board, sets aside funds to study and acquire alternate water sources for the purpose of reducing the District's reliance on imported water. The reserve is funded by the Water Services portion of the Standby Charge collected by the San Diego County Tax Collector from all parcels within the District.

Section 5.03.220.08
Water Rate Stabilization Reserve

Rainbow Municipal Water District shall maintain one Water Rate Stabilization Reserve equal to 10% of annual water revenues. This reserve shall be established on January 1, 2016 and will be brought to its target balance over a five year period. Funds for this reserve will come from water rates and charges and will be used to mitigate rate impacts from changes in water demand.