

RESOLUTION NO. 02-2018

PATTERSON IRRIGATION DISTRICT'S

RESERVE POLICY

WHEREAS, the Board of Directors recognizes the need to ensure that the District will have sufficient funding available to meet its operating, capital, and debt service obligations.

WHEREAS, the Board of Directors recognizes the need for sound financial policies as stewards of our customers' funds; and

WHEREAS, the Board of Directors recognizes the need for funds to be held in reserve for both planned and unanticipated and unforeseeable expenses; and

WHEREAS, the Board of Directors recognizes the need to avoid significant water rate fluctuations; and

WHEREAS, the Board of Directors recognizes a need for long term strategic financial policies; and

WHEREAS, the District's facilities include electrical gear, pumps, motors, pipelines, pumphouses, electrical sub-stations and distribution, canals, and a fishscreen facility ("**Facilities**"); and

WHEREAS, it is in the best interest of the district and its landowners to maintain and replace these Facilities to provide a reliable water supply during the irrigation season; and

WHEREAS, in addition, after the needs of district landowners are met, these Facilities can provide supplemental income to the District by providing reliable long-term wheeling of water for third parties; and

WHEREAS, this supplemental income provides rate stabilization for growers and landowners within the District; and

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Patterson Irrigation District (PID) hereby approves and adopts the Reserve Policy dated June 20, 2018, said Reserve Policy is attached as "Exhibit A" and hereby establishes reserves as follows ("**Reserves**”):

Designated Reserves: Designated Reserves are Reserves that are established and set aside to be used only for a specific purpose designated by the Board (classified as unrestricted on the audited financial statements).

Restricted Reserves: Restricted Reserves are Reserves that are restricted by an outside source, such as by statute, court, or contract (classified as restricted on the audited financial statements).

Unrestricted/Undesignated Reserves: Unrestricted Reserves represent a remainder balance of cash that is not yet designated for some use by the Board of Directors.

The Reserves are set to accomplish systematic and strategic goals or provide for prudent management of operations. The Board of Directors has complete discretion in the management and designation of Designated and Unrestricted Reserves. Such Reserves can be modified, transferred, or altered by Board action.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Patterson Irrigation District as follows: Each fiscal year budget will report on the status of the Reserve funds over the previous year and budget for proposed sources and uses for each Reserve.

PASSED AND ADOPTED by the Board of Directors of the Patterson Irrigation District at a regular meeting held on this June 20, 2018 by the following vote:

Ayes: *Azevedo, Fantozzi, Reichmuth, Barbaste, Prevastini*
Noes:
Absent:
Abstain:



John Azevedo
President, Board of Directors

ATTEST: 

Toni Russell
Secretary, Board of Directors

Exhibit A

Patterson Irrigation District Policy Regarding The Establishment of Reserve Funds

Passed and adopted June 20, 2018

Properly designed policies send a positive signal to the community of ratepayers, rating agencies, and regulatory agencies that the Patterson Irrigation District (“**District**”) Board is committed to the District's long-term financial health and viability. Prudent financial management and best practices dictate that the District maintain appropriate reserves for emergency use, rate stabilization, capital projects, obligations accruing on a current basis that will be paid in the future, and those required as a result of legal or external requirements (“**Reserves**”).

Adequate levels of Reserves are critical to the successful and stable operation of the District. Maintaining adequate Reserves allows for reasonable levels of rate stabilization from year to year for rate payers and provides assurance that the District can respond to short-term emergencies, including unforeseen costly regulatory requirements.

Section 1 - Definitions

1. Designated Reserves: Designated Reserves are Reserves that are established and set aside to be used only for a specific purpose designated by the Board of Directors (classified as unrestricted on the audited financial statements).
2. Restricted Reserves: Restricted Reserves are Reserves that are restricted by an outside source, such as by statute, court, or contract (classified as restricted on the audited financial statements).
3. Undesignated Funds: These are funds that are temporarily unassigned to specific Reserve funds.

Section 2 - Background

Special districts have constitutional authority under Article XIII B of the California Constitution to establish reserve funds as the districts “deem reasonable and proper.” Therefore, the District’s Reserve Policy has been developed to consider the level of Reserves necessary to adequately provide for:

- Cash flow requirements
- Planned capital improvements
- Defending the District’s water rights
- Enhancing the District’s water supply portfolio

- Contingencies for unforeseen operating or capital needs
- Loss of significant revenue sources such as irrigation income, water transfers, and property tax receipts
- Economic uncertainties or other financial hardships
- Credit worthiness
- Unfunded mandates including costly regulatory requirements

Reserve funds are not “surplus” funds, but rather necessary funds designated or restricted for various purposes important to the short and long-term operations of the District. The District believes that a certain portion of its annual revenues should be held in reserve as part of its overall financial management strategy. There are two major types of Reserve funds: Designated Reserve Funds and Restricted Reserve Funds.

- **“Designated Reserve”** funds are earmarked for purposes of funding new capital facilities, construction, repair or refurbishment of existing facilities, rate stabilization and operations. These funds can be utilized at the discretion of the District; therefore, the Board can change fund designations at any time. All earnings on designated reserve funds accrue to the District’s general fund and become a part of the annual non-operating revenues.
- **“Restricted Reserve”** funds are used strictly to meet requirements established by creditors, grant agencies, or law. The Board has no discretion as to the use of these funds.

Section 3 – Policy

In consideration of the background conditions and the need to establish a method of which the District sets revenues aside, the Board adopts a reserve policy establishing the following funds.

1. **Operating Reserves Fund:** This fund is to cover operating costs for an established period of time. This Reserve will ensure continuity of service regardless of cash flow and is considered working capital to be used to fund current expenses as needed which helps stabilize water rates. The Operating Reserves Fund shall maintain a balance for the most expensive operating month for the District. This fund shall be maintained monthly. It is intended that this is funded by District assessments, water revenue, and the rate stabilization fund if necessary.
2. **Rate Stabilization Fund:** This fund is intended to be populated for the years that the District desires to subsidize rates for the coming year. The funds placed into this account shall be after the end of the year review has been performed by management. The amount placed in this fund shall be determined by the at the beginning of the year after final review of the undesignated reserves fund.
3. **Emergency Reserve Fund:** This Reserve is designated for emergency purposes only. This fund will typically remain fully funded and not utilized unless a situation arises that is an expense that the District is encumbered with and needs to respond immediately. These

expenses would typically fall into the category to be reimbursed or addressed through insurance. But the timing of things may dictate the District's need for the cash Reserves. This fund shall be populated based upon the situation that causes the most critical and expensive emergency. For example, a critical impact would be that a power surge brings down the river station and causes the District to get the pumps and motors refurbished and some repairs to the electrical. In addition, the pump station going down would also require bypass pumping at full capacity.

4. **Undesignated Reserves Fund:** The Undesignated Reserve Fund is considered as the "first stop" of outside wheeling or transfer revenue. This fund will serve three purposes 1) to be where transfer and wheeling revenue is placed, 2) to fund non-operating expenses, and 3) to provide the funds at the end of the year for determination on water rates and capital improvements. These funds will be reallocated based upon the direction of the Board at the beginning of the year.
5. **Other Special Purpose Reserves:** The Board may, at its discretion, set aside Reserves for a special project or purchase.
6. **Capital Replacement and Improvement Program (CRIP) Fund:** This Reserve is designated for funding the capital improvement program. It is designed to stabilize funding for capital by accumulated "pay as you go" Reserves. Each year, under this fund, the Board shall designate a dollar amount to be set aside to ensure the necessary projects found to benefit the District the most be constructed in a reasonable amount of time. This fund is to continuously be populated, with a target amount each year set by the Board. This fund shall only be populated by funds generated via outside revenue.
7. **Restricted Reserve Fund:** Most debt issuances require the creation of a separately held Reserve fund equal to one year of debt service, to be held by the trustee, and used in the last year of the debt repayment. In the future, if the District issues debt, it may be required to establish a legally restricted debt service Reserve. This fund will only be utilized if the need arises for the District.

Section 4 – Policy Implementation

Reserve Fund Usage

1. It is the District's intention that current operating expenditures (net of depreciation and amortization) plus normal annual capital expenditures be funded with current revenues. Reserves may be used at the discretion of the Board to provide budgetary funding for the purposes for which the Reserves were established, as detailed above.
2. The Board will authorize the use of Reserve funds during the District's annual budget process. Authorization for the use of Reserve funds for unbudgeted projects during the year shall also be approved by the Board. The Board, at its sole discretion, may establish new Reserve funds, combine or modify existing Reserves, and set new minimum or maximum funding levels.

Reserve Fund Monitoring

1. District staff will perform an annual Reserve review to be submitted to the Board of Directors for the February Board Meeting for consideration of the water rates for the upcoming water year.
2. In addition, a reserve review will be required when a major change in conditions threatens the reserve levels established by this policy.