

***Mendocino County Russian River Flood Control &
Water Conservation Improvement District***

STAFF REPORT

Agenda Item 10: Reserves Policy Review

Monday, June 1, 2026

The Strategic Plan relevant priority is: **Governance and Operational Excellence** by fostering sound and sustainable management of District finances. Performance metric: Develop policy for budgeting, investing, and rate setting.

Introduction

Over the next few meetings, the Board will be presented with information on and an opportunity to discuss the District’s Reserve Policy, providing direction to the General Manager on policy updates. Any final changes to policy will be presented to the Board a public Board Meeting for consideration of adoption. The June agenda item will cover:

- Why does the District have Reserves?
- What is the current Reserves Policy?
- How much does the District currently have in Reserve accounts?
- What is the District’s historical balance and use of Reserves?

Discussion

Why does the District have Reserves?

GM Salomone attended a Financial Policies and Internal Controls training webinar in November 2024. (Scott Nelson, the District’s current accountant, was a presenter.) An excerpt of slides from that training covers reserve basics, types of reserve categories to consider, and internal controls (**Attachment A.**) The Board is invited to review these slides together and discuss.

What is the current Reserves Policy?

The current Reserves Policy (**Attachment B**) was adopted by the Board in August 2024 at a Board Meeting on recommendation from the District’s Accountant, Treasurer, and General Manager. Four reserve categories are defined in the policy (Operating, Capital, Emergency, Water Supply Reliability) and funding limits set. The Board is invited to review the current policy together and discuss.

How much does the District currently have in Reserve accounts?

The following excerpt from a QuickBooks report shows the reserve balances in the District’s LAIF and CLASS Accounts:

Reserve Balance as of May 1, 2026		
1010 · LAIF		
1011 · Capital Reserve		92,000.00
1012 · Emergency Reserve		50,000.00
1013 · Operating Reserve		308,000.00
1014 · Water Reliability Reserve		68,652.92
1010 · LAIF - Other (interest earned this FY)		47,462.35
Total 1010 · LAIF		566,115.27
1020 · CA CLASS		
1024 · Water Reliability Reserve		255,257.78
	Total Reserves:	821,373.05

(Continued...)

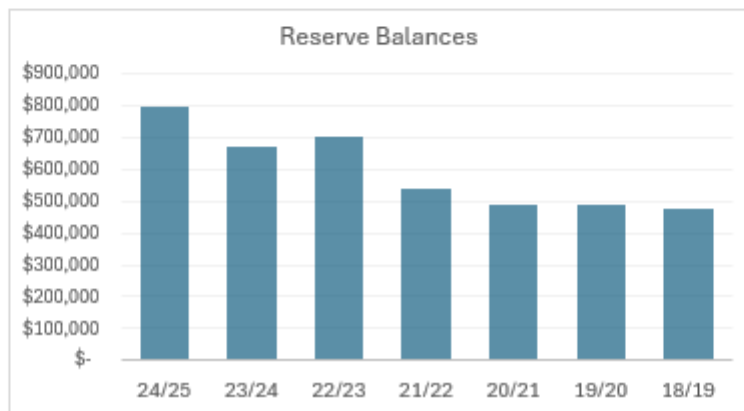
What is the District’s historical balance and use of Reserves?

Fiscal Year	Account Balances			Fiscal Year Totals	Use of Reserves			
	LAIF	SBMC	CLASS		from Capital (meters)	from Water Reliability (IWPC)	from Water Reliability (GSA)	from Water Reliability (Trails Group Grant)
24/25	\$ 542,814	n/a	\$ 255,258	\$ 798,072	\$ 744	\$ -	\$ -	\$ -
23/24	\$ 518,653	\$ 150,140	n/a	\$ 668,793	\$ 7,424	\$ 46,700	\$ 30,000	\$ -
22/23	\$ 499,603	\$ 200,110	n/a	\$ 699,713	\$ -	\$ -	\$ -	\$ -
21/22	\$ 491,085	\$ 50,055	n/a	\$ 541,140	\$ -	\$ 25,000	\$ 68,750	\$ -
20/21	\$ 489,718	n/a	n/a	\$ 489,718	\$ -	\$ 100,000	\$ -	\$ -
19/20	\$ 485,605	n/a	n/a	\$ 485,605	\$ -	\$ 25,000	\$ -	\$ 1,500
18/19	\$ 474,440	n/a	n/a	\$ 474,440	\$ -	\$ 70,000	\$ -	\$ -
Totals:					\$ 8,169	\$ 266,700	\$ 98,750	\$ 1,500

Notes:

21/22: District created SBMC savings account category for Reserves.

24/25: District opened CLASS account and closed SBMC.



Recommended Action:

Provide feedback to General Manger on presented items and topic(s) for next meeting.

Attachments:

- A: Why the District Has Reserves- select slides from financial training webinar
- B: Current Reserves Policy

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Prepared and submitted to the Board of Trustees by: Elizabeth Salomone, General Manager

Attachment A: Why the District Has Reserves

(Highlights from a Financial Policies and Internal Controls training, November 2024)

RESERVE POLICY: WHY HAVE ADEQUATE RESERVES?

Prudent reserves allow for:

- Balanced budgets
- Emergency preparedness
- Stable rates for customers
- Well-maintained infrastructure
- To meet future known and unknown obligations
- Access to financing – you have to have money to get money cheaply



WHAT ARE RESERVES EXACTLY?

- Each agency establishes what constitutes “reserves” differently
- $\text{Assets minus Liabilities} = \text{Fund Balance}$
- $\text{Some use Spendable Assets} - \text{Cash less Current Liabilities} = \text{Reserves}$
- Some use amounts set aside in investment accounts
- Some use designated amounts of current checking and investment
- Whatever the definition, healthy reserves represent disciplined cash management

TYPES OF RESERVES

- Operating Reserves
- Capital Reserves
- Emergency Reserves
- Rate Stabilization
- Future Obligations Reserves
- Restricted Reserves:
 - Debt Service
 - Developer Impact Fees

EMERGENCY & RATE STABILIZATION RESERVES

Emergency Reserves

- Can be a set amount or a % of revenues/expenses.
- Often used in catastrophic events like a severe earthquake or fire, removal of solid waste from a natural or man-made disaster.
- Covid caused emergencies for most districts initially. Hardest hit? Loss of ridership for transportation districts, airport districts. Fire districts overtime for Covid calls and staffing. Water/Sewer districts split shifts, Libraries closed down, Parks lost program revenue... Affected all.

Rate Stabilization Reserves

- Can be a set amount or a % of revenues/expenses.
- Commonly used by water/sewer agencies to minimize large rate increases due to unanticipated events, water conservation, sewage spill fines, etc...

RESTRICTED RESERVES & FUTURE OBLIGATIONS/ASSIGNED RESERVES

Restricted Reserves

- Debt Service - Typically, one year of debt service is kept in restricted reserves to use in the event the district cannot service the debt (usually held by the trustee)
- Developer Impact/Mitigation Fees – typically used for future capital or expanded services

Future (Assigned) Obligation Reserves (not usually legally restricted)

- Compensated Absences
- Worker's Comp Reserve

HOW TO FUND RESERVES?

Budget for a set amount, like an expense, each year to get you to your target levels (for enterprise funds, bake it into your rates)

Use unexpected net income (revenues – expenses = net income)

- For property tax dependent agencies, the housing boom has yielded far higher property tax revenues than the typical increases in valuations

Windfall monies from unusual or one-time events that add to net income:

- Sale of assets
- Unexpected grants
- Covid relief funds

INTERNAL CONTROLS TO MONITOR RESERVES



The Reserve Policy should be reviewed each year in conjunction with the audited financial statements to determine where the fiscal year ended and the status of reserve funding.



Reserve levels should also be considered during the budget process to determine the status of reserve funding.



Monthly or quarterly financial reports of reserve status (Treasurer's report) provide reserve funding status.



The Reserve Policy should be revisited with any major change in District status.

Attachment B: Current Reserves Policy

2150 Reserve Policy

The District shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. The Board of Trustees adopts policies to maintain a prudent level of financial resources and provide cost-effective, efficient public services through a stable rate structure and gradual rate increases. The District must be prepared for larger-scale regional investments that help to secure water resources within its service area and must be prepared for sudden emergencies and unexpected costs. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Fund replacement and major repairs for the District's physical assets.
- b) Fund regular replacement of computer hardware and software.
- c) Fund designated projects, programs, and/or other special uses not otherwise funded by grants or requiring additional monetary support;
- d) Fund capital improvements; and
- e) Maintain minimal operational sustainability in periods of economic uncertainty.

Use of District Reserves is limited to available "Unrestricted" Funds (not obligated by law, contract or agreement), including donations, interest earned, fees for service, or other non-grant earnings. All special use funds will be designated by formal action of the Board of Trustees. The goal of the District is to maintain reserves at a level that equals or exceeds the sum of the following components:

- a) Operating Reserve:
Purpose: This amount is intended to mitigate funding six months of operating expenses.
Limit: 50 percent of the annual operating expense budget.
- b) Capital Reserve:
Purpose: This amount is intended to replace existing assets and fund future capital projects
Limit: 15 percent of gross fixed assets as of the audit of the prior year plus 10 percent of the annual operating expense budget.
- c) Emergency Reserve:
Purpose: This amount is intended to be protection against catastrophic loss and to provide a cushion in the event of unexpected circumstances.
Limit: 25 percent of the value of fixed assets
- d) Water Supply Reliability Reserve:
Purpose: Reserves set aside for the specific purpose of securing/purchasing water supply and/or infrastructure for storage or supply distribution.
Limit: The costs associated with the District's share of these expenses could be as high as \$100 million. However, in order to initiate a prudent policy direction, the limit of this reserve shall not exceed \$20 million without further agreement on specific project participation and reserve assignment.

The District does not have a firm value to determine a contribution factor for Water Supply Reliability Reserve. Therefore, this Reserves Policy establishes that when revenue deposits exceed the account limits specified in District Policy, those exceedances will be deposited into Water Supply Reliability Reserve.

Monitoring Reserve Levels: The General Manager, in collaboration with the Treasurer, shall perform a reserve status analysis annually, to be provided to the Board of Directors' annual deliberation/approval of Budget and Reserve Funds.

Additional information may be provided to the Board of Trustees upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.