

RESOLUTION NO. 1529

RESOLUTION OF THE MESA WATER DISTRICT BOARD OF DIRECTORS REVISING THE DESIGNATED FUNDS POLICY SUPERSEDING RESOLUTION NO. 1443

WHEREAS, the Mesa Water District (Mesa Water® or District) is a county water district organized and operating pursuant to the provisions of the laws of the State of California (State or California); and

WHEREAS, the Board of Directors (Board) of the Mesa Water District previously adopted Resolution No. 1443 adopting Mesa Water's Designated Funds Policy; and

WHEREAS, the Board desires to adopt a revised and updated policy statement, policies and procedures regarding Mesa Water's designated funds as part of policies and procedures affecting the District's funds and finances.

NOW THEREFORE, THE BOARD OF DIRECTORS OF THE MESA WATER DISTRICT DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:


Section 1. This Resolution shall supersede Resolution No. 1443 - Adopting a Designated Funds Policy and revises the specific policy statement, policies and procedures regarding designated funds as set forth in Appendix A and Attachment A, attached hereto and incorporated herein by this reference (collectively, the Designated Funds Policy).

Section 2. This Resolution, and the Designated Funds Policy adopted hereby, shall be reviewed by the Finance Committee at least once every five years to, among other considerations, determine if the policies, guidelines and procedures are still relevant and appropriate.

Section 3. The revised Designated Funds Policy, as set forth in Attachment A, shall be effective upon approval of this Resolution.

ADOPTED, SIGNED, AND APPROVED this 12th day of March 2020 by the following roll call vote:

AYES: DIRECTORS: Atkinson, Bockmiller, Fisler, DePasquale, Dewane
NOES: DIRECTORS:
ABSENT: DIRECTORS:
ABSTAIN: DIRECTORS:



Denise Garcia
District Secretary



Shawn Dewane
President, Board of Directors

APPENDIX A

RESOLUTION NO. 1529

RESOLUTION OF THE MESA WATER DISTRICT BOARD OF DIRECTORS REVISING THE DESIGNATED FUNDS POLICY SUPERSEDING RESOLUTION NO. 1443

1. MESA WATER SHALL CONTINUE THE GOAL OF MAINTAINING FINANCIAL STABILITY OVER TIME

Mesa Water District (Mesa Water® or District) has adopted a goal of maintaining financial stability over time. Financial stability is not only a prudent management goal; it can also minimize financial costs in the long-term (e.g., securing low interest costs on borrowings and avoiding unnecessary borrowing). Above all, financial stability will provide the community with the confidence of knowing a strong, consistent team is managing the utility.

Financial policies and measures will be developed to measure, manage, achieve and maintain financial stability.

1.1 DESIGNATED FUNDS

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Mesa Water will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Designated Funds (as defined in Attachment A) will be accumulated and maintained to allow Mesa Water to fund expenditures in a manner consistent with the District's Water System Master Plan, and avoid significant rate fluctuations due to changes in cash flow requirements.

The Board of Directors (Board) may designate specific fund accounts and maintain target fund balances consistent with statutory obligations that the Board has determined to be in the best interests of Mesa Water. The Designated Funds Policy directives are intended to ensure Mesa Water has, and will have, sufficient financial resources and Designated Funds to meet current and future needs. The Board will review the level of Designated Funds on a periodic basis as set out in the Designated Funds Policy.

1.2 DESIGNATED FUNDS TARGET

- 1.2.1 Mesa Water will maintain sufficient reserves, and of such a nature, that it strives to target designated fund balances totaling 600 days of budgeted operating expenses as defined by the Designated Funds Policy.

1.3 CASH FLOW

- 1.3.1 At the end of a fiscal year, Mesa Water should strive to have total revenues, less operation and maintenance expenses, debt service and capital projects funded from rates, greater than or equal to zero.

1.4 TARGET DEBT SERVICE COVERAGE:

- 1.4.1 Mesa Water will strive to maintain an actual debt service coverage ratio of 1.30 on all outstanding debt service. (Industry norm for revenue bond coverage ratio covenants is 1.25. Mesa Water's certificates of participation covenant coverage ratios of 1.15).
- 1.4.2 The debt service coverage ratio will be calculated at fiscal year-end and reviewed by Mesa Water's independent external auditor. The calculation and the auditor's opinion will be included in Mesa Water's Comprehensive Annual Financial Report.
- 1.4.3 Mesa Water's annual budget will be prepared so as to have an annual debt service coverage ratio greater than or equal to 1.50 on all outstanding debt that includes a contractual coverage ratio covenant.
- 1.4.4 The Board will review Mesa Water's projected debt service coverage ratio prior to the adoption of each annual budget.

ATTACHMENT A

RESOLUTION NO. 1529

**RESOLUTION OF THE
MESA WATER DISTRICT BOARD OF DIRECTORS
REVISING THE DESIGNATED FUNDS POLICY
SUPERSEDING RESOLUTION NO. 1443**

**Mesa Water District's
Designated Funds Policy**

March 2020



MesaWater
DISTRICT

DESIGNATED FUNDS POLICY

March 2020

1. Policy Statement

The principal purpose of this Policy is to provide a written statement of the Board of Directors (Board) as to Mesa Water District's (Mesa Water® or District) Designated Funds including, but not limited to, their designation, purpose(s), designated funding levels, usage and procedures related thereto.

A key element of prudent financial planning for public agencies is to ensure that sufficient funding is available for current and on-going operating, capital and debt service needs. Additionally, fiscal responsibility requires anticipating the possibility of, and preparing for, unforeseen events which result in fiscal consequences.

Mesa Water will at all times retain the goal of having sufficient funding available to meet its on-going operating, capital and debt service financial obligations. Designated Funds will be accumulated, held, maintained and monitored pursuant to this Policy to allow Mesa Water to fully meet expenditure requirements and obligations in a manner consistent with its Water System Master Plan and avoid significant rate fluctuations due to changes in revenue receipts and cash flow requirements.

The Board may designate specific funds/accounts and designated fund balances for the Designated Funds consistent with applicable statutory provisions, and levels that the Board has determined to be in the best interests of Mesa Water.

The directives outlined in this Policy are intended to help ensure that Mesa Water has, and will have, sufficient funds to meet current and future fiscal needs, requirements and/or obligations. The Board will review the designated funding levels of the various Designated Funds on a periodic basis.

2. Definitions

Unless otherwise defined herein, or unless the context requires otherwise, the following terms shall have the following meaning(s) for purposes of this Policy:

- Board – means the Board of Directors of Mesa Water District.
- Designated Funds – means those funds, accounts and/or sub-accounts created or held on behalf of Mesa Water which are subject to this Policy and are further set out in Sections 3 and 5 hereof.
- Designated Funds Policy or Policy – shall mean this Mesa Water District Designated Funds Policy as adopted and as amended from time to time.
- Mesa Water or District – means Mesa Water District, a county water district organized and operating pursuant to State law.
- Rules and Regulations – means the Rules and Regulations for Water Service as adopted by the Board and as amended from time to time.
- State – means the State of California.

Capitalized terms used herein and not otherwise defined shall have the meaning(s) ascribed thereto in the Rules and Regulations.

3. Types of Designated Funds

There shall be three types of Designated Funds, which are defined and described below:

- I. **RESTRICTED FUNDS:** Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws and/or regulations.
- II. **CAPITAL FUNDS:** Established by action of the Board and designated for specific purposes. These funds are utilized primarily to fund capital and asset replacement costs.
- III. **LIQUIDITY FUNDS:** Established by action of the Board to safeguard the financial viability and stability of Mesa Water and, absent specific directives of the Board, shall be funded from accumulated revenues.

4. General Provisions

Mesa Water will maintain its Liquidity and Capital Funds in designated funds or accounts in a manner that ensures its financial soundness and provides transparency to its customers. The targeted level(s) of Fund balances are considered the minimum necessary to maintain the District's credit worthiness and adequately provide for:

- Compliance with applicable statutory requirements;
- Financing of future capital facilities and repair and replacement of existing capital assets;
- Cash flow requirements;
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy; and/or
- Contingencies or unforeseen operating or capital needs.

In the context of funding future capital facilities and maintaining and replacing existing capital assets, in each instance, Mesa Water will analyze the benefits and tradeoffs of utilizing pay-as-you-go funding and/or debt financing and determine the optimal funding strategy or combination of funding strategies. The analysis should consider Mesa Water's current and projected liquidity and capital positions, as well as the impact of projected inflation, the cost(s) of water and other factors on the operations of the District and its capital improvement and replacement program.

Through a variety of policy documents and plans, including, but not limited to, Mesa Water's Asset Management Plan, Capital Improvement Plan, Water System Master Plan and Strategic Plan, the Board has set forth a number of long-term goals for the District. A fundamental purpose of Mesa Water's policy documents and plans, including this Policy, is to link what is to be accomplished, as set out in such policy documents and plans, with the necessary resources to successfully do so.

Mesa Water has established and will maintain the following Designated Funds and their respective accounts/sub-accounts:

- Restricted Funds – comprised of the Bond Proceeds Fund(s) and the Customer and Development Deposits
- Capital Funds – comprised of the Capital Replacement Fund
- Liquidity Funds – comprised of the Operating Fund, Rate Stabilization Fund, Administrative & General Fund and the Catastrophe Fund

A principal tenet of this Policy shall be the crediting of interest earnings to specific Designated Funds until the respective Designated Fund's designated funding level is achieved. Once the designated funding level is reached within a specific Designated Fund, the interest earnings over and above the designated funding level will be reallocated to other Designated Funds, as further set forth in the following paragraph, whose funding level is below the designated funding level as established pursuant to this Policy.

Designated Fund balances will be reviewed on an annual basis at, or near, the end of Mesa Water's established fiscal year to ensure compliance with this Policy. In the event the Liquidity Fund balance exceeds the designated funding level, monies over and above the designated funding level held therein will be transferred annually into the Capital Fund. On an as-needed basis, moneys from the Capital Fund may be transferred to pay for operating emergencies to supplement the Liquidity Fund. In addition, in the event that the Capital Fund balance exceeds the established maximum, the Board will make a determination regarding the reallocation of such funds.

The designated funding level established for each Designated Fund represents the baseline financial condition that is acceptable to Mesa Water from risk and long-range financial planning perspectives. Maintaining Designated Funds at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various revenue generating alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to: fees and charges, water usage, capital financing, investment of funds and current and projected levels of capital expenditures.

To preserve its current AAA (or equivalent) credit ratings, in each fiscal year Mesa Water will strive to target unrestricted cash and Designated Fund balances totaling 600 days of budgeted operating expenses less pass-through expenses (defined herein as Operating Expenses). Should Mesa Water determine to target a different

credit rating level, this target may be adjusted accordingly. Higher credit ratings can provide economic benefit to Mesa Water in terms of lower interest rates on the future borrowings based on broader investor base and greater demand for the Mesa Water's issued securities, resulting in lower annual debt service cost. However, should Mesa Water determine to pursue a different credit rating, it will need to carefully analyze under what circumstances and in what timeframes it will be optimal to achieve such goal.

The Board shall approve any reallocation of funds or any transfers among Designated Funds.

5. **Mesa Water Designated Funds**

This Section further describes each of the Designated Funds (including accounts and sub-accounts therein), designated funding level(s) and related information.

I. RESTRICTED FUNDS

- a. Bond Proceeds Fund(s) – Bond proceeds funds are monies derived from the proceeds of a securities issue. Typically they consist of construction fund monies and a debt service reserve fund (DSRF). The use of these proceeds is restricted by conditions set forth in the respective legal documents providing for the issuance of the corresponding securities. These funds are usually held by a trustee (bank) and there may be commitments of such funds in favor of the securities holders.

Designated Funding Level – The debt service reserve requirement is established at the time of a securities issue. This amount may be recalculated as the securities are paid down. Any excess funds and/or interest earnings over and above the specified reserve requirement are typically used to pay debt service on the corresponding outstanding securities.

Events or Conditions Prompting the Use of the Fund(s) – As stipulated in the respective securities issuance documents. Construction fund monies are expected to be spent on applicable projects, while DSRF can only be used in the event of a shortfall of funds available to pay debt service or to pay down principal of such securities at maturity.

Periodic Review Dates for Balances – Reviewed by the applicable trustee and Mesa Water staff on at least an annual basis.

- b. Customer and Development Deposits – Monies held on behalf of Mesa Water customers as required for their utility account(s) or as cash bonds for development projects.

Designated Funding Level – Customer deposits are required based upon the process outlined in the Rules and Regulations. Deposit requirements for development projects are outlined in Mesa Water's most current Miscellaneous Fees and Charges Resolution. The balance in this account will fluctuate

depending on the number of utility customer deposits required and the number of development projects in process. Therefore, no overall designated funding level(s) will be established.

Events or Conditions Prompting the Use of the Fund(s) –

1. Funds held as customer deposits are held to satisfy unpaid balances for the corresponding customer utility account as set out in the Rules and Regulations. As deposits on utility accounts are released, they will be refunded to the customer.
2. Deposits for development projects are drawn down to meet costs incurred by Mesa Water, or to satisfy unpaid balances, applicable to the corresponding development project. When development projects are complete, the project(s) will be closed and a final accounting will be completed. Remaining deposit monies, if any, will be returned to the development customer following final accounting and reconciliation.

Periodic Review Dates for Balances – Reviewed by staff on a regular basis as part of the monthly closing process.

II. CAPITAL FUNDS

Mesa Water will strive to maintain a designated funding level of \$10.0 million in the Capital Funds. The Capital Funds will consist of the following sub-account:

- a. Capital Replacement Fund – The Capital Replacement Fund is used for the rebuilding and/or replacement of capitalized assets based around when such capital assets reach the end of their useful lives.

Designated Funding Level – Mesa Water may set aside replacement funds on a project-by-project basis. The designated funding level is equal to the \$10.0 million designated for the Capital Fund. There is no maximum balance specified in the Capital Replacement Fund.

Events or Conditions Prompting the Use of the Fund – Staff will recommend assets to be replaced during the annual budget preparation process. As projects are approved, funds will be appropriated from funds held in the Capital Replacement Fund not allocated for specific capital projects or available revenues.

Periodic Review Dates for Balances – Fund balances and projected capital projects will be reviewed by staff and the Board during the preparation and approval of the annual budget.

III. LIQUIDITY FUNDS

Liquidity Funds will be comprised of the following sub-accounts: the Rate Stabilization Fund and the Operating Fund. The balance in the Liquidity Funds will fluctuate depending on annual Operating Expenses. The designated funding level in the Liquidity Funds will be equal to 180 days of the annual budgeted Operating Expenses.

- a. Administrative & General Fund – The Administrative & General Fund is used to fund certain major general, administration and overhead projects. It is intended to fund (or partially fund) offices, fixtures, furnishings, vehicles and equipment on a pay-as-you-go basis. The Board will appropriate funds for specific projects which can be funded on an as-needed or project-by-project basis.

Designated Funding Levels –

1. Target – The designated funding level in the Administrative & General Fund will be equal to 20 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum funding level in the Administrative & General Fund will be equal to 25 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – Improvement projects will be identified by staff and recommended to the Board during the preparation of the annual budget. As projects are approved, funds will be appropriated from available revenues.

Periodic Review Dates for Balances – Fund balances and projected improvement projects will be reviewed by staff and the Board during the preparation and approval of the annual budget.

- b. Catastrophe Fund – The Catastrophe Fund is used to begin to rebuild, restore and/or repair Mesa Water's infrastructure and assets after a catastrophic event, such as a severe earthquake or fire, while long-term financing is being arranged or insurance claims are being processed.

Designated Funding Levels –

1. Target – The designated funding level in the Catastrophe Fund will be equal to 150 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum funding level in the Catastrophe Fund will be equal to 180 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – The Board may designate use of this fund after establishing that conditions exist as called out in the definition and purpose of the fund.

Periodic Review Dates for Balances – Fund balances and designated and maximum funding level will be reviewed by staff and the Board during the preparation and approval of the annual budget.

- c. Rate Stabilization Fund – This fund is established to provide flexibility to the Board when setting rates to allow for absorbing temporary rate fluctuations or for one-time expenditures.

Designated Funding Levels –

1. Target – The designated funding level in the Rate Stabilization Fund will be equal to 60 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum funding level in the Rate Stabilization Fund will be equal to 75 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – This fund is intended to be used to defray any temporary unforeseen and extraordinary increases in the cost of water supply. The Board, on a case by case basis, will determine the amount and timing for any use of this fund.

Periodic Review Dates for Balances – Fund balances will be reviewed by staff and the Board during the preparation and approval of the annual budget.

- d. Operating Fund – The Operating Fund is used for unanticipated Mesa Water operating expenses. This fund is designated by the Board to maintain working capital for current operations and to meet routine cash flow needs.

Designated Funding Levels –

1. Target – The designated funding level in the Operating Fund will be equal to 120 days of the annual budgeted Operating Expenses.
2. Maximum – The maximum funding level in the Operating Fund will be equal to 150 days of the annual budgeted Operating Expenses.

Events or Conditions Prompting the Use of the Fund – Upon Board authorization, this fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses and extraordinary decreases in revenues and unexpected increases in expenses.

Periodic Review Dates for Balances – Fund balances and designated funding level will be reviewed by staff and the Board during the preparation and approval of the annual budget.

6. Investment Guidelines

It has been Mesa Water's practice to rely primarily on a pay-as-you-go (pay-go) strategy to fund capital improvements and replacement of existing assets. However, maintaining a balance between debt and pay-go sources may provide an added benefit to Mesa Water in terms of allowing for a more optimal investment strategy. In the context of these policies and in circumstances where such balance is present, the investment portfolio can be separated into short and long portfolios to maximize investment returns.

Funds held in the Designated Funds are subject to Mesa Water's Investment Policies and delegation(s) of investment authority as adopted by the Board and as amended from time to time.

7. Delegation of Authority

The Board has sole authority to amend or revise this Designated Funds Policy. Through adoption of this Policy, the Board has established written procedures for staff to follow in the management of Mesa Water's Designated Funds.