Resolution 2025-06

A Resolution of the Board of Directors of Pajaro Valley Water Management Agency

Amending the Cash Reserve Policy for the Fiscal Year Ending June 30, 2026

The Board of Directors ("Board") of Pajaro Valley Water Management Agency ("PV Water") does resolve as follows:

WHEREAS, the Board of Directors has determined that it is prudent to formally articulate a Cash Reserve Policy establishing general guidelines on cash reserves that will help to ensure the Agency's long-term financial and operational stability; and

WHEREAS, the Cash Reserve Policy was adopted in 2013, establishing minimal reserves with the intention of building them over time; and

WHEREAS, the Cash Reserve Policy was last amended in December 2023, when the Board adopted Resolution 2023-20, Amending the Cash Reserve Policy for the Fiscal Year Ending June 30, 2024; and

WHEREAS, the Administration & Finance Committee reviewed the proposed amendments to the Cash Reserve Policy during its June 10, 2025, meeting, and voted in favor of recommending the Board adopt the amended Policy; and

WHEREAS, the Cash Reserve Policy serves as an important management decision-making tool in planning for and evaluating activities or transactions that could have a significant impact on PV Water's finances; and

WHEREAS, the Board desires to amend the Cash Reserve Policy.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Pajaro Valley Water Management Agency does hereby amend the Cash Reserve Policy, attached to this Resolution, and incorporated herein.

PASSED AND ADOPTED by the Pajaro Valley Water Management Agency, County of Santa Cruz, State of California, the **18th** day of **June 2025,** by the following vote:

AYES: Rider, Bannister, Newell, Broz, Hernandez, Miller
NOES: None
ABSENT: Culbertson
ABSTAIN: None

Stephen Rider, Chair

Attest:

Asia Valdivia, Board Secretary

Pajaro Valley Water Management Agency
Cash Reserve Policy

Introduction

The Pajaro Valley Water Management Agency (PV Water or the Agency) Cash Reserve Policy establishes general guidelines on cash reserves that will help to ensure the Agency's long-term financial and operational stability. In this capacity, the Cash Reserve Policy articulates a comprehensive set of reserves that seek to mitigate operational, capital, and debt service risks PV Water may encounter.

The Cash Reserve Policy is established in the context of PV Water's current and expected capital improvement program and borrowings associated with the Basin Management Plan: Groundwater Sustainability Update 2022 (GSU22). The intent of the Cash Reserve Policy is to set overall reserve levels that are reasonable, defensible, and consistent with the aggregate risk profile that PV Water faces in effectively managing water supplies in the Pajaro Valley. Considering climate change resiliency is an important aspect of this effort. Since reserve targets are based on certain assumptions and estimated costs and risks for PV Water, the Cash Reserve Policy and established reserve levels will be reviewed annually or more often if there is a material change in the risk exposures to PV Water. It is noted that the Cash Reserve Policy is established to provide general guidelines for fiscally responsible cash management. The Cash Reserve Policy is not intended to set strict limits that must be adhered to, nor is it intended to be all-inclusive in the sense that there remain a variety of factors outside the purview of the policy that could materially impact PV Water's financial condition. Certain risks and risk probabilities have been considered to be sufficiently remote or to require a scale of reserves that would be prohibitive as compared to the probability of such an outcome, and this policy does not purport to address such risks. Instead, these guidelines are intended to serve as a management decision-making tool in planning for and evaluating activities or transactions that could have a significant impact on the level of cash on hand.

Categories of Cash Reserves

The Cash Reserve Policy recommends the creation of four separate reserve funds:

- Operation & Maintenance Reserve
- Repair & Replacement Reserve
- Debt Service Reserve
- Rate Stabilization Reserve

Summary of Recommended Reserve Levels

Reserve Category	Recommended Reserve
Operation & Maintenance Reserve	**50% of Annual Operating Expenditures or approximately 180 days**
Repair & Replacement Reserve	**25% Annual Depreciation**
Debt Service Reserve	**20% for Debt Service obligation that do not have their own reserve**
Rate Stabilization Reserve	**As determined by the Board and management**

Each reserve is summarized below with an explanation as to the methodology that was used to size each reserve.

Operation & Maintenance Reserve

Purpose

The purpose of the Operation & Maintenance Reserve is to provide greater stability in PV Water's annual operations even under unforeseen and changing circumstances as it relates to both revenues and expenses. Water utilities such as PV Water are subject to a broad array of risks, including but not limited to natural events such as earthquakes and climate change, and malicious events such as cybersecurity attacks, which may vary from small, temporary disruptions of business to substantial disruptions. The operation and maintenance reserve may be used any time to meet the cash flow requirements of PV Water's operations.

Methodology

Many water utilities, which generally operate on a monthly billing cycle, maintain operating reserves at a level of 60 to 180 days of operating expenses. Typically, agencies in the most stable operating environments are able to manage with reserves on the smaller end of this range, while many agencies with significant annual volatility in revenues or expenditures or those undergoing significant expansion have substantially larger operating reserves.

Operation & Maintenance Reserve Target Level

PV Water will maintain an Operation & Maintenance Reserve equal to 50%, or approximately 180 days, of annual operating and maintenance expenses (see Exhibit A).

Repair & Replacement Reserve

Purpose

PV Water's GSU22 is made up of projects that will increase water supply to the Pajaro Valley and significantly expand PV Water's existing infrastructure. The Repair & Replacement Reserve may be used any time to fund the unplanned repair or replacement of capital assets, and to allow PV Water to absorb fluctuations in the capital improvement plan without an immediate rate impact to customers.

Methodology

Given the significant capital improvements in which the Agency has invested over the past couple of decades and the sizeable capital plans associated with implementation of the GSU22, the Repair & Replacement Reserve ensures the availability of funds to respond to unexpected needs.

Repair and Replacement Reserve Target Level

PV Water will maintain a 25% annual depreciation reserve (see Exhibit A).

Debt Service Reserve

Purpose

The purpose of the Debt Service Reserve is to provide funds dedicated to paying PV Water's debt service obligations in the event of a significant, unexpected decrease in operating revenue during which operating funds may be insufficient to meet such obligations. Increases and decreases to the Debt Service Reserve are based upon total debt service obligations.

Methodology

Typical municipal bond covenants require the establishment of a debt service reserve fund in an amount equal to maximum or average annual debt service on the bonds. Such a requirement exists in connection with PV Water's Department of Water Resources' promissory note and State Water Resources Control Board's Clean Water State Revolving Fund (SRF) Financial Agreement. PV Water's accounting records show these amounts in various liability accounts.

Debt Service Reserve Policy

PV Water will maintain a Debt Service Reserve funded at a level equal to 20% for debt service obligations that do not have their own reserve (see Exhibit A).

Rate Stabilization Reserve

Purpose

The Rate Stabilization Reserve is established to provide short-term rate stability in case of an unexpected drop in revenue or increase in expenses. Among other things, the Rate Stabilization Reserve affords PV Water with added flexibility in meeting its financial covenants to bondholders in the event of a financial shock to the Agency resulting from disaster or unforeseen financial circumstances. The Rate Stabilization Reserve can be used at any time to meet the cashflow requirements of PV Water's operations. The use of the Rate Stabilization Reserve requires Board Authorization.

Methodology

Unlike other reserves, the Rate Stabilization Reserve is typically not a percentage or ratio, but rather a fixed amount. The funding of such a reserve is highly dependent upon the expected variability in PV Water's revenue stream, budgeted expenditures, political matters, legal matters and the level of total annual debt service, among other factors.

Rate Stabilization Reserve Target Level

PV Water will maintain a Rate Stabilization Reserve as determined by management and the Board (see Exhibit A). In December 2023, the Board voted to increase the Rate Stabilization Reserve from $500 thousand to $1 million and directed staff to increase it to $1.5 million by Fiscal Year 2028-29.

Accessing Reserved Funds

A written request will be submitted to the Administrative & Finance Committee, prior to the Board of Directors, outlining the reasons for accessing the reserves, the amount needed, and a plan for payment or replenishment. The Board of Directors will review and approve or modify the request, authorizing the

transfer of funds. The approved transfer is executed, moving the funds out of the reserve to be used for only the specific and intended purpose.

Replenishment and Annual Review

To replenish cash reserves, target balances are established along with identifying the sources of revenue to set an annual appropriation schedule of repayment.

Operating & Maintenance Reserves are replenished from PV Water's revenue, taking precedence over the replenishment of the Rate Stabilization Reserve. Operating and Maintenance reserves will be replenished as soon as is fiscally feasible.

The Rate Stabilization Reserve will be replenished as soon as possible, with replenishment to commence within 18 months of any Rate Stabilization Reserve draw.

Repair & Replacement Reserves are replenished from PV Water's revenue, taking precedence over the replenishment of the Rate Stabilization Reserve. Repair & Replacement reserves will be replenished as soon as is fiscally feasible.

The General Manager or Finance & Administrative Services Manager will submit a reserve analysis to the Board of Directors when:

- The Board of Directors considers the annual budget.
- The Board of Directors considers a rate increase.
- A major change in conditions threatens the reserve levels.

If reserve analysis (Exhibit A) indicates projected or actual individual reserve levels would fall 10 percent or more below target levels outlined in this Policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level.
- A list of actions needed to bring reserve levels within the target level prescribed.

PV Water closely monitors, reviews, and evaluates reserve balances and funding levels annually. All reserve fund transactions are transparent to the public, via meeting minutes, budget documentation and board resolutions. Since reserve targets are based on certain estimates, assumptions, and risk probabilities, the Cash Reserve Policy will be revisited more frequently if there is a change in PV Water's operations, capital program, or debt service obligations that warrant review of these policies.

Pajaro Valley Water Management Agency
Cash Reserve Policy
Exhibit "A"

Adopted December 2023, Proposed June 2025

Operation & Maintenance Reserve	**FY 23/24**	**FY24/25**		***FY25/26***
Projected Operating Expenditures ($MM)	8.50	8.85		*9.17*
Projected Reserve Amount ($KK)	4,250.00	4,427.09		*4,587.23*

Repair & Replacement Reserve	**FY 23/24**	**FY24/25**		***FY25/26***
Projected Annual Depreciation ($MM)	3.38	3.43		*3.37*
Projected Reserve Amount ($KK)	845.28	857.97		*841.36*

Debt Service Reserve	**FY 23/24**	**FY24/25**		***FY25/26***
Projected Debt Service Payments ($MM)	3.98	4.02		*4.02*
Restricted Funds for Debt Covenants ($KK)	333.90	346.09		*361.06*
Projected Reserve Amount ($KK)	729.21	734.39		*731.12*

Rate Stabilization Reserve	**FY 23/24**	**FY24/25**		***FY25/26***
Projected Reserve Amount ($KK)	1,000.00	1,100.00		*1,200.00*

Total Cash Reserve ($MM)	**6.82**	**7.12**	***7.36***