

Agenda Item 21C
Date May 19, 2022

F-50 RESERVES

Purpose

This policy establishes reserves, explains the purpose and reasons for the size of each reserve, and provides for the oversight of reserves.

The District requires reserves for operations and capital needs. Reserves provide financing safeguards for the District’s operations. Such funds are available for extraordinary expenses and to fund cash flow. In addition, reserve fund investments generate earnings to supplement other revenues.

F-50-10 Reserve Fund Policies

	OPERATING & RATE STABILIZATION RESERVE Fund unexpected expense increases or offset loss of Sewer Service Charge revenue. Replenish any reserves used over a 6-to-10-year period.	VEHICLE & EQUIPMENT RESERVE (VERF) Fund capital vehicle replacement based on VERF program. Replenish any reserves used to adequately fund program for 3 to 4 years.	EMERGENCY REPAIR RESERVE Fund emergency repairs. Replenish the reserve over a 2 to 3 year period.	CAPITAL RESERVE Provide capital for major capital projects including upgrades and expansions.	TOTAL COMBINED RESERVES
CURRENT STATUS					
Target Goal	\$9,085,466	\$1,000,000	\$1,000,000	\$4,000,000.	\$15,085,466
06/30/21 Balance	\$2,651,898	\$1,094,425	\$1,000,000	\$3,425,644	\$8,171,967
Percent Reached	29%	101%	100%	86%	
Risks	The reserve is used to absorb unexpected cost increases and spread them over more than one year. Provide for this reserve by funding from property tax and ERAF funds.	Aging vehicle fleet without proper replacement funding risks operational interruptions and sewer overflow response delays.	Balance may be used to fund working capital needs. Fund would not be large enough to address a catastrophic event.	Without a reserve, projects are funded with current year revenue in excess of O&M needs; or the District has to rely on bond financing. At the time the reserve balance was established the District had operating and capital reserves of \$10M.	
LONG-TERM GOALS					
Basis for Target Goal	7 months of operating and debt service cash flow based on most current budget; amount to be evaluated annually based on proposed budget. Reserve can be used to stabilize and avoid dramatic rate increases.	VERF program that determines useful vehicle life, varying from 5 to 10 years. Vehicle schedule used to develop target goal annually as part of budget process.	The cost to repair a major pump station or other infrastructure.	To provide capital for major capital projects that span two or more years. Accumulated depreciation to be reviewed and factored into setting target to have current ratepayer pay for the utilization of the District’s assets.	
The district will build up the reserves based on: (a) the annual Construction CPI and (b) annual allocations of property tax and ERAF funds, as available.					

Considerations	Due to the timing of revenue receipts an increased margin would be more comfortable. A sudden increase in costs would have to be absorbed by operating reserves since the rate setting process occurs every 4 to 5 years.	May not be sufficient to fund three or more unexpected large vehicle or equipment purchases.	The reserve would be able to absorb one major repair or several smaller ones; a catastrophic event would require federal or state funding.	Should be sufficient for cash funding or regular projects but may not be enough for larger infrastructure replacements where debt may be incurred.	
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F-50-20 Use of Reserves. Upon recommendation of the General Manager, the Board shall identify the reserve to be utilized and authorize the General Manger to transfer reserve funds to the respective operational or capital funds. Any use shall be reflected in any revised budget.

Resolution No. 2022-2255	Date Approved: May 19, 2022
President of the Board	Last Revised: May 19, 2022

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