

POLICY TITLE: District Financial Reserves Policy
POLICY NUMBER: 3100

PURPOSE

The Rodeo Sanitary District Board of Directors considers it prudent to establish a policy for the District's fund balances and to establish reserves as necessary to provide for the long term continued provision of services to the District's ratepayers. The purpose of the District Financial Reserves Policy is threefold: to enable realistic long-term planning, to assist with effective development of annual budgets, and to promote clear communications with the general public and District staff. The elements of the policy are created by the Board of Directors and may be revised by the Board of Directors as needed. In developing this policy, the District reviewed and considered information provided by the California Special Districts Association and the Government Finance Officers Association (GFAO), conducted independent research and consulted with the District's Auditor.

DEFINITIONS AND GOALS

Operating Reserve

The Operating Reserve is intended to provide an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss in funding, or uninsured losses. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of the Rodeo Sanitary District for Operating Reserves to be used and replenished within a reasonably short period of time. The Operating Reserve Fund is defined as the designated fund set aside by action of the Board of Directors. The minimum amount to be designated as Operating Reserve will be established in an amount sufficient to maintain ongoing operations and programs. The Operating Reserve serves a dynamic role and will be reviewed and adjusted in response to both internal and external changes.

The target minimum Operating Reserve Fund is equal to Sixty Percent of average annual operating costs. The calculation of average annual operating expenses includes all recurring, predictable expenses such as salaries and benefits, occupancy, office, travel, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation of the average annual operating expenses. The calculation of average annual expenses also excludes capital purchases.

The amount of the Operating Reserve fund target minimum will be calculated each year after approval of the annual budget, reported to the Finance Committee/Board of Directors, and included in the regular financial reports.

Capital Asset Reserve

The Building and Capital Asset Reserve is intended to provide a ready source of funds for repair or acquisition of structures, sewage collection system piping and manholes, leaseholds, and equipment necessary for the effective operation and maintenance of the Rodeo Sanitary District.

The target amount of the Capital Asset Reserve will be Two Million Dollars. This represents approximately ten percent of the Comprehensive Wastewater Master Plan Capital Improvements

Program. This figure represents approximately 7,500 feet of sewer lines, or major equipment purchases and major structural repair for a single catastrophic event.

State Revolving Fund Debt Service Reserve

The State Revolving Fund Debt Service Reserve is intended for two purposes:

- To set aside funds developed for the debt service of the Rodeo Sanitary District's loan through the State Revolving Fund, and
- Pay for project costs during construction that will be reimbursed through the SRF loan program.

The District has implemented a phased increase for the sewer service fee. This increase has specifically designed for the payment of the funding necessary for the near term projects for the District's CIP Program generated from the CWWMP. The SRF repayment process does not require debt service payments of funds borrowed until the final project in the Near Term Improvements is completed. This is currently scheduled for the Fiscal Year 2017-2018. As a result, the District will realize the proceeds of the phase rate increase to an accumulation of several million dollars.

Each year during budget preparation, the Budget and Finance Committee will provide the District Board of Directors the funds available from the phased rate increase to be set aside in the State Revolving Fund Debt Service Reserve. When the District begins paying the debt service, the repayment of the SRF funding will be drawn from the State Revolving Fund Debt Service Reserve. The annual process of setting aside the State Revolving Fund Debt Service Reserve will occur until the SRF funding debt service has been fully paid.

ACCOUNTING FOR RESERVES

The Reserve Funds will be recorded in the financial records as:

- Operating Reserve
- Capital Asset Reserve
- State Revolving Fund Debt Service Reserve

The Funds will be funded and available in cash or cash equivalent funds.

FUNDING OF RESERVES

The Operating Reserve fund will be funded with surplus unrestricted operating funds. The Board of Directors may from time to time direct that a specific source of revenue be set aside for Operating Reserves. Examples could include one-time gifts or bequests, special grants, or special appeals.

The Capital Assets Reserve will be funded by setting aside Board designated funds from the capital or operating revenue, or capital or operating surplus, or a combination of both.

The State Revolving Fund Debt Service Reserve fund will be funded with funds available from the phased rate increase as determined each year by the Budget and Finance Committee.

USE OF RESERVES

Use of the Reserves requires three steps:

1. Identification of appropriate use of reserve funds.

The District Manager will identify the need for access to the reserve funds and confirm that the use is consistent with the purpose of the reserves as described in this Policy. This step requires analysis of the reason for the shortfall, the availability of any other sources of funds before using reserves, and evaluation of the time period that the funds will be needed and replenished.

2. Authority to use Operating or Capital Asset Reserves

The District Manager will submit a request to use Reserves to the Budget and Finance Committee of the Board of Directors. The request will include the analysis and determination of the use of funds and plans for replenishment. The District's goal is to replenish the funds used within twelve months to restore the Reserve Fund to the target minimum amount. The Budget and Finance Committee will recommend to the Board of Directors the approval of transfers from the Reserve Fund on the consent calendar. If the use of Reserves will take longer than 12 months to replenish, the request will be removed from the consent calendar and brought before the Board of Directors for approval.

- 3 Authority to use State Revolving Fund Debt Service Reserve

There are two uses for the State Revolving Fund Debt Service Reserve:

- The interim payment of construction, design, and supporting service invoices related to the implementation of the Near Term Projects of the CWWMP, and
- The payment of the SRF debt service.

During the construction phase of the CWWMP projects, the District will incur construction, design, and supporting service expenses from project contractors related to the five projects:

- Sewer Year 1 Improvements
- Sewer Year 2 Improvements
- Sewer Year 3 Improvements
- Main Pump Station improvements
- WWTP Improvements

These expenses will be debited against the State Revolving Fund Debt Service Reserve as the reimbursement process from the State can take several months to complete. Once the reimbursement is received, the State Revolving Fund Debt Service Reserve will be credited. The District Manager will provide updates on State Revolving Fund Debt Service Reserve account activity at the monthly Budget and Finance Committee meeting. The account will be audited annually with the Districts regular financial audit.

4. Reporting and monitoring.

The District Manager is responsible for assuring that the Reserve funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve Funds, the District Manager will maintain records of the use of funds and plan for replenishment. The District Manager will

provide regular reports to the Budget and Finance Committee of progress to restore the fund to the target minimum amount.

REVIEW OF POLICY

This Policy will be reviewed every other year, at minimum, by the Budget and Finance Committee, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Budget and Finance Committee to the Board of Directors.