

# **SAN LORENZO VALLEY WATER DISTRICT RESERVE FUND POLICY**

**Adopted January 15, 2009  
Resolution No. 17 (08-09)**

## **Introduction:**

San Lorenzo Valley Water District recognizes the importance of adopted policies relative to reserves and reserve funds. Written adopted financial policies relative to designated reserves and reserve funds have many benefits, and represents a critical element of sound fiscal management. Reserves and reserve funds are prudent fiscal management tools, which are a cornerstone of long-term financial planning. A written and adopted Reserve Fund Policy provides for and facilitates attainment of program and financial goals relative to the prudent accumulation and management of designated reserves and reserve funds. This Reserve Fund Policy was developed to clearly identify specific designated reserves and reserve funds. It is the intent of this Reserve Fund Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District's mission statement, the uniqueness of the District, and the philosophy of the District's Board of Directors. This policy shall be known and may be cited as the San Lorenzo Valley Water District Reserve Fund Policy.

## **Objectives:**

This Reserve Fund Policy has been developed to consider and appropriately provide for the following:

1. To assure continued operation and solvency of the District for the carrying out of its stated mission and purposes.
2. To maintain a financially viable District that can preserve adequate levels of service.
3. To maintain and enhance the sound fiscal condition of the District
4. To maintain financial flexibility in order to be able to continually adapt to change, and permit an orderly adjustment to unanticipated events.
5. To maintain a diversified and stable long-term financial plan.
6. The accumulation and maintenance of an amount equal to the stated target fund level for each specific reserve fund created by the District.
7. The review of this policy on an annual basis in order to determine appropriate changes, additions and/or deletions.
8. To maintain a written San Lorenzo Valley Water District Reserve Fund Policy.

## **Reserve Fund Policy:**

In order to achieve the objectives of this Policy, the Board of Directors shall adhere to the following guidelines:

1. Reserve funds may be established from time to time by the Board of Directors as an important component of sound financial management to meet both short and long-term financial objectives, and to ensure prudent financial management practices.
2. Reserve funds may be designated by the Board of Directors as a “restricted reserve fund” or “non-restricted reserve fund”.
3. Restricted reserve funds shall be segregated, and limited in use to specific and designated purpose(s) as defined and established by the Board of Directors.
4. Assets of a restricted reserve fund shall be held separately from the general Water Fund, and shall only be used for the stated purpose(s) of the specific reserve fund.
5. Non-restricted reserve funds shall have no reference to specific accounting assets.
6. Non-restricted reserve funds do not require the physical segregation of funds.
7. All investment earnings from restricted and non-restricted reserve funds shall be credited to the District’s general Water Fund, unless otherwise stated herein.
8. Board of Director approval shall be required prior to the expenditure of restricted reserve funds, unless otherwise stated herein.
9. The Board of Directors shall maintain a written San Lorenzo Valley Water District Reserve Fund Policy.
10. The Board of Directors shall annually review the San Lorenzo Valley Water District Reserve Fund Policy at a public meeting in order to determine appropriate changes, additions, and/or deletions.

## **Reserve Funds:**

The Board of Directors hereby establishes and designates the following reserve funds:

1. Working Capital Reserve Fund. See Attachment 1.
2. Emergency Reserve Fund. See Attachment 2.
3. Watershed Property Asset Reserve Fund. See Attachment 3.
4. Capital Replacement/System Improvement Reserve Fund. See Attachment 4.
5. Equipment Replacement Reserve Fund. See Attachment 5.
6. Rate Stabilization Reserve Fund. See Attachment 6.
7. Sick/Annual Leave Reserve Fund. See Attachment 7.

## **Target Fund Levels:**

The Board of Directors shall establish a stated target fund level for each designated reserve fund. See Attachment 8 for a compendium of established target fund levels for designated reserve funds.

### **Annual Evaluation:**

The District Manager shall perform a review and analysis of each designated reserve funds for presentation to the Board of Directors at a public meeting upon the occurrence of the following:

1. Upon consideration by the Board of Directors of the annual budget.
2. Upon any significant change to and/or expenditure(s) from a designated reserve fund.
3. Upon determination that a fund balance is less than the established target fund level for a designated reserve fund.

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# ATTACHMENT 1

## SAN LORENZO VALLEY WATER DISTRICT WORKING CAPITAL RESERVE FUND

### **Fund Purpose:**

The purpose of the Working Capital Reserve Funds is to accumulate sufficient reserve funds necessary to satisfy the general cash flow demands and requirements of the District. This reserve fund will preserve credit worthiness, ensure adequate financial resources are available for timely payment of District obligations, and provide liquidity throughout the fiscal year.

### **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Working Capital Reserve Fund”.
2. The Working Capital Reserve Fund shall be designated as a non-restricted reserve fund.
3. The District Manger is authorized to approve the expenditure of Working Capital Reserve Funds, without prior approval of the Board of Directors, in response to day-to-day cash flow requirements.
4. The Working Capital Reserve Fund may be invested in financial institutions and instruments which maintain the highest level of liquidity, such as checking, savings and LAIF.
5. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Working Capital Reserve Fund is to maintain a balance in the general Water Fund, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$750,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the general Water Fund equal to approximately two (2) months budgeted expenditures for the fiscal year.
2. For the purpose of this policy, budgeted expenditures shall include all expenditures associated with the following:
  - a. Personnel Services
  - b. Materials & Services

- c. Debt Service (Debit service relative to special assessment districts which are collected with ad valorem tax bills shall not be included for the purpose of this policy guideline.)

## ATTACHMENT 2

### SAN LORENZO VALLEY WATER DISTRICT EMERGENCY RESERVE FUND

#### **Fund Purpose:**

The purpose of the Emergency Reserve Funds is to accumulate sufficient financial reserves necessary to insure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disasters and/or other emergencies.

#### **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Emergency Reserve Fund".
2. The Emergency Reserve Fund shall be designated as a restricted reserve fund.
3. The Emergency Reserve Fund shall be expended solely for the purpose of responding to and maintaining District operations during a natural disaster and/or emergency.
4. The District Manager is authorized to approve the expenditure of Emergency Reserve Funds, without prior approval of the Board of Directors, for purposes of restoration and/or maintenance of essential service levels in response to a natural disaster or other emergency.
5. Upon expenditure of any Emergency Reserve Funds, the District Manager shall notify the Board of Directors at the earliest possible opportunity.
6. Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund.
7. All investment earnings from the Emergency Reserve Fund shall be credited to the District's general Water Fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Emergency Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$1,000,000, unless otherwise directed by the Board of Directors at a public meeting.

## **ATTACHMENT 3**

### **SAN LORENZO VALLEY WATER DISTRICT WATERSHED PROPERTY ASSET RESERVE FUND**

#### **Fund Purpose:**

The purpose of the Watershed Property Asset Reserve Fund is to establish general rules to guide the District's use for the principal received by the District pursuant to the September 22, 2000 sale of the Waterman Gap property.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Watershed Property Asset Reserve Fund".
2. The Watershed Property Asset Reserve Fund shall be designated as a restricted reserve fund.
3. Approval for expenditures from the Watershed Property Asset Reserve Fund shall require the affirmative approval by four (4) members of the Board of Directors at a duly noticed public meeting.
4. All investment earnings from the Watershed Property Asset Reserve Fund shall be credited to the District's general Water Fund.
5. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Watershed Property Asset Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$6,500,000, unless otherwise directed by the Board of Directors at a public meeting.

## **ATTACHMENT 4**

### **SAN LORENZO VALLEY WATER DISTRICT CAPITAL REPLACEMENT/SYSTEM IMPROVEMENT RESERVE FUND**

#### **Fund Purpose:**

The purpose of the Capital Replacement/System Improvement Reserve Fund is to accumulate sufficient reserve funds necessary to insure timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Capital Replacement/System Improvement Reserve Fund".
2. The Capital Replacement/System Improvement Reserve Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Capital Replacement/System Improvement Reserve Fund in an amount approved by the Board of Directors.
4. Monies transferred into the Capital Replacement/System Improvement Reserve Fund shall be expended solely for the construction of new and/or replacement water system infrastructure and capital assets.
5. The District Manger is authorized to approve the expenditure of Capital Replacement/System Improvement Reserve Funds, without prior approval of the Board of Directors, in accordance with approved budget authorizations.
6. All investment earnings from the Capital Replacement/System Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Capital Replacement/System Improvement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$1,250,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:



1. The District shall maintain a balance in the Capital Replacement/System Improvement Reserve Fund equal to approximately five percent (5%) of the District's total net assets.

## ATTACHMENT 5

### SAN LORENZO VALLEY WATER DISTRICT EQUIPMENT REPLACEMENT RESERVE FUND

#### **Fund Purpose:**

The purpose of the Equipment Replacement Reserve Funds is to accumulate sufficient reserves necessary to insure timely replacement and upgrade of the District's vehicles, mobile equipment, and appurtenances thereto. Safe, reliable and up-to-date vehicles and equipment, in good working order, are essential for the provision of public services in a timely and professional manner. Due to the need for depreciation and replacement of vehicles and other mobile equipment it is desirable for the District to set aside funds on an on-going basis for this purpose.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Equipment Replacement Reserve Fund".
2. The Equipment Replacement Reserve Fund shall be designated as a restricted reserve fund.
3. The initial procurement for new vehicles and/or equipment (not replacement of existing) shall be funded by the general Water Fund, not by the Equipment Replacement Reserve Fund.
4. Each adopted budget of the District shall contain an allocation in the sum of \$70,000 for the replacement and/or upgrade of existing vehicles and mobile equipment.
5. In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment is less than said \$70,000 allocation, the remaining balance shall be transferred to the Equipment Replacement Reserve Fund.
6. In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment exceed said \$70,000 allocation, the necessary balance to accomplish the procurement(s) shall be transferred from the Equipment Replacement Reserve Fund.
7. Funds transferred from the Equipment Replacement Reserve Fund shall be expended solely for the purpose of replacement and upgrade of existing District vehicle, mobile equipment and appurtenances thereto.
8. The District Manger is authorized to approve the expenditure of Equipment Replacement Reserve Funds, without prior approval of the Board of Directors, in accordance with approved budget authorizations.

9. The allocation amount shall be reviewed every five (5) years for appropriate vehicle and equipment retention schedules, depreciation schedules and acquisition costs.
10. All investment earnings from the Equipment Replacement Reserve Fund shall be credited to the District's general Water Fund.
11. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Equipment Replacement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$350,000, unless otherwise directed by the Board of Directors at a public meeting.

## ATTACHMENT 6

### SAN LORENZO VALLEY WATER DISTRICT WATER RATE STABLIZATION RESERVE FUND

#### **Fund Purpose:**

The purpose of the Water Rate Stabilization Reserve Funds is to establish a means to provide more stable water service charges to the District's customers. The Water Rate Stabilization Reserve Fund will be used to accumulate reserves for District use during periods of unanticipated fluctuations in general Water Fund revenues. Unanticipated fluctuations in general Water Fund revenues include, but are not be limited to, periods of drought and /or natural disasters. The Water Rate Stabilization Reserve Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and provide for more stable rates.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Water Rate Stabilization Reserve Fund".
2. The Water Rate Stabilization Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Water Rates Stabilization Reserve Fund in an amount approved by the Board of Directors.
4. Monies transferred from the Water Rate Stabilization Reserve Fund shall be expended solely as directed by the Board of Directors.
5. The District Manger is authorized to approve the expenditure of Water Rate stabilization Funds, without prior approval of the Board of Directors, in accordance with budget authorizations.
6. All investment earnings from the Water Rate Stabilization Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Water Rate Stabilization Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$350,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the Water Rate Stabilization Fund equal to approximately ten percent (10%) of the District's estimated annual revenue to be received from all charges for water service.
2. For the purpose of this policy charges for water service shall be defined as the aggregate sum of all bi-monthly basic service charges and consumptive charges.

## ATTACHMENT 7

### SAN LORENZO VALLEY WATER DISTRICT SICK/ANNUAL LEAVE RESERVE FUND

#### **Fund Purpose:**

The purpose of the Sick/Annual Leave Reserve Funds is to accumulate sufficient reserves necessary to insure payment of outstanding accrued sick and/or annual leave upon a District employee's separation of service from the District. Pursuant to the current Memorandums of Understanding by and between the District and designated employee representative bargaining group, District employees may accumulate annual leave in accordance with a maximum accumulation schedule. Previous Memorandums of Understanding also provided for the accumulation of Sick Leave. Any employee separated from the service of the District shall receive pay for all accumulated annual/sick leave in accordance with designated schedules. It is desirable for the District to set aside funds on an on-going basis for this purpose.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Sick/Annual Leave Reserve Fund".
2. The Sick/Annual Leave Reserve Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Sick/Annual Leave Reserve Fund approved by the Board of Directors.
4. Monies transferred into the Sick/Annual Leave Reserve Fund shall be expended solely for the purpose of compensation to District employees upon separation of service from the District for accumulated sick/annual leave.
5. The District Manger is authorized to approve the expenditure of Sick/Annual Leave Reserve Funds, without prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the Sick/Annual Leave Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Sick/Annual Leave Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$300,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the Sick/Annual Leave Reserve Fund equal to approximately one hundred percent (100%) of the accrued liability for compensated absences.

## ATTACHMENT 8

### SAN LORENZO VALLEY WATER DISTRICT SUMMARY OF RESERVE FUND TARGET FUND LEVELS

<b><u>RESERVE FUND</u></b>	<b><u>TARGET LEVEL</u></b>
Working Capital Reserve Fund.	\$ 750,000
Emergency Reserve Fund.	\$1,000,000
Watershed Property Asset Reserve Fund.	\$6,500,000
Capital Replacement/System Improvement Reserve Fund	\$1,250,000
Equipment Replacement Reserve Fund.	\$ 350,000
Rate Stabilization Reserve Fund	\$ 350,000
Sick/Annual Leave Liability Reserve Fund.	\$ 300,000