

SLVWD RESERVE FUND POLICY

Adopted by Resolution No. 27 (20-21)

1. PURPOSE OF RESERVE FUND POLICY

Establishing reserve funds are important to a successful and stable, financial operation of the San Lorenzo Valley Water District (the “District”).

Adequate reserves ensure that customers experience both stable rates for service and the security that the District can respond to emergencies, especially regarding water and wastewater quality issues. Adequate reserves ensure that the District will at all times have sufficient funding available to meet its operating, capital and debt service cost obligations, together with future debt or capital obligations, as well as any unfunded mandates, including costly regulatory requirements.

The District manages its working capital in a manner that allows the District to fund costs consistent with its annually updated capital improvement program and budgeted financial plan, and that avoids significant rate fluctuations due to changes in cash flow requirements. The ability of the District to maintain reserve funds is a critical factor in providing reliable service, mitigating rate increases, and ensuring overall financial strength.

During the budget adoption process, the District Board shall review, and approve any changes for reserve funds based upon the needs of the District. Appendix A and B will be updated with each year based on the target levels identified below and management’s estimates of the balances from the budget process.

This Reserve Fund Policy (the “Policy”) was developed to clearly identify specific designated reserves and reserve funds. It is the intent of this 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.

2. FUND BALANCE CLASSIFICATIONS

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 (Statement 54), Fund Balance Reporting and Governmental Fund Type Definitions in February 2009. Statement 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

FUND BALANCE CLASSIFICATIONS

NONSPENDABLE	RESTRICTED	COMMITTED	ASSIGNED	UNASSIGNED
Inherently nonspendable, such as inventory, prepaid expenses, long-term receivables.	Subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, or laws and regulations of other governments.	Subject to a purpose constraint imposed by a formal action of the Board, and that require the same level of formal action to remove the constraint. Typically before the end of the fiscal year.	This portion is earmarked for an intended use. Intent is established at Board level or by the District Manager.	This comprises all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.



3. DESIGNATED RESERVE FUNDS:

a. OPERATING RESERVE – ASSIGNED

PURPOSE – The Operating Reserve is established to cover unexpected cash flow shortages, expense or losses. These might be caused by delayed payments, unexpected repairs, or economic conditions.

TARGET LEVEL - The target balance of the Operating Reserve will equal 4.5 months of operating expenses of the current year budget.

USE OF FUNDS - This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses or decreases in revenues and unexpected increases in expenses.

b. CAPITAL IMPROVEMENT RESERVE – ASSIGNED

PURPOSE - The Capital Improvement Reserve will fund the development

of new district-wide capital facilities, replacement, or refurbishment. It will also fund any emergency situations declared by the District Manager.

TARGET LEVEL - The target balance of the Capital Improvement Reserve will equal 2.5% of anticipated full capital replacement cost ⁽¹⁾. This reserve may be supplemented by any capacity related fees

USE OF FUNDS - This fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses or decreases in revenues and unexpected increases in expenses. It may also be used as matching funds for any grant opportunities.

⁽¹⁾ For the purposes of Fiscal Years 2021-2023, an estimated replacement cost of \$150 million was used. The District is in the process of a system wide master plan that will better establish a full capital replacement cost, plus inflation, to be used going forward.

c. COMPENSATED ABSENCES RESERVE – ASSIGNED

PURPOSE - This fund is established to cover unexpected high employee paid time off (PTO) balances. This is usually an event when multiple employees leave the District that had significant PTO balances accrued for.

TARGET LEVEL - The target balance of the Compensated Absences Reserve will equal one third (1/3) of the balance stated on the last audited financials.

USE OF FUNDS – Upon Board authorization, this fund may be utilized by staff to cover large, unbudgeted PTO cash out payments.

d. DEBT SERVICE RESERVE - RESTRICTED

PURPOSE - The District will fund Debt Service Reserves, which are held in trust with a third party trustee, as provided for in debt covenants.

TARGET LEVEL - Increases and decreases to these reserves will be consistent with debt covenants.

USE OF FUNDS - Restricted to the respective debt covenants.

e. ASSESSMENT DISTRICT RESERVE - RESTRICTED

PURPOSE – From time to time the District may have assessment districts (AD) of which revenue is received for a specific purpose.

TARGET LEVEL - Increases and decreases to these reserves will be consistent with any respective AD's.

USE OF FUNDS - Restricted to the respective AD defined uses.

f. FIRE RECOVERY SURCHARGE - COMMITTED

PURPOSE – To cover the anticipated \$5M out of pocket costs to the District from the 2020 CZU wildfires.

TARGET LEVEL – Collect \$5M over a 5 year period, or less if the reconciled expenses are less than the \$5M. Fund level will fluctuate from revenues collected against reconciled expenditures. This is a temporary fund that will be removed once completed.

USE OF FUNDS - The District will track CZU Wildfire costs against the revenues generated by the Surcharge. These expenses may be operating, capital or debt related expenditures.

4. Annual Review

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

Upon consideration by the Board of the annual budget.

Upon any significant change to and/or expenditure(s) from a designated reserve fund.

Upon determination that a fund balance is less than the established target level, without a near term replenishment plan.

As part of the annual review, a summary of the funds and fund level(s) shall be listed out, as well as the anticipated levels for that fiscal year.

APPENDIX A - ANNUAL UPDATED RESERVE FUNDS AND LEVELS

(Updated as part of the FY2021-2023 biennial budget process)

RESERVE FUNDS	CLASSIFICATION	TARGET LEVEL <i>(calculations)</i>	BASIS	FY21-22 ESTIMATE	FY22-23 ESTIMATE
OPERATING	ASSIGNED – Filled 2nd	4.5 Months of Operating Expense	BUDGET	\$3.432M	\$3.551M
CAPITAL IMPROVEMENTS	ASSIGNED – Filled 3rd	\$3.750M <i>(\$150M x 2.5%)</i>	EST. \$150M	\$0.976M	\$3.750M
COMPENSATED ABSENCES	ASSIGNED – Filled 1st	FY21-22: \$565K/3 FY22-23: \$575K/3	EST. AUDIT AMOUNT	\$0.188M	\$0.192M
DEBT	RESTRICTED	\$0.180M	BUDGET	\$0.180M	\$0.180M
OLYMPIA ASSESSMENT DISTRICT	RESTRICTED	\$0.110M	BUDGET	\$0.110M	\$0.110M
FIRE SURCHARGE	COMMITTED	Maximum \$5M, fluctuates	ACTUALS	\$0.917M	\$1.917M
SURPLUS RESERVES	UNASSIGNED	Remainder Above Target Level		\$0	\$0.139K
TOTAL				\$5.802M	\$9.838M

APPENDIX B - DEBT CURRENT AND FUTURE

(Updated as part of the FY2021-2023 biennial budget process)

CURRENT DEBT

Below is a table showing the District's current debt service payments and projected ending balances.

Non-Operating Expenses

Interest Expense	FY21/22	FY22/23
2021 \$15M Loan	\$ 367,467	\$ 342,167
2019 \$14.5M COP	507,975	495,350
Probation Tank Loan	77,146	74,009
Refunding Bond	1,345	-
Felton Loan	26,039	22,129
Olympia SRF Loan	34,515	32,712
Solar Lease	6,477	5,263
Vehicle Lease	-	-
Total Interest Expense	\$ 1,020,965	\$ 971,630

			Additional Debt Information			
Debt Principal Payments	FY21/22	FY22/23	FY21/22 Balance	FY22/23 Balance	Term. Date	Interest Rate
2021 \$15M Loan	\$ 592,284	\$ 606,584	\$ 14,407,716	\$ 14,106,233	Ends 03/41	2.40%
2019 \$14.5M COP	245,000	260,000	13,550,000	13,290,000	Ends 08/49	2.99%
Probation Tank Loan	74,831	77,969	1,802,633	1,724,663	Ends 09/38	3.88%
Refunding Bond	103,454	-	-	-	Ends 09/21	2.60%
Felton Loan	160,758	164,668	882,176	717,507	Ends 07/27	2.42%
Olympia SRF Loan	69,717	71,521	1,258,529	1,187,008	Ends 01/37	2.57%
Solar Lease	32,518	33,731	158,725	124,994	Ends 11/26	3.67%
Vehicle Lease	22,732	-	-	-	Ends 05/22	3.29%
Total Debt Payments	\$ 1,301,295	\$ 1,214,473	\$ 32,059,778	\$ 31,150,406		

FUTURE DEBT

There are no known debt financings being pursued.