

Sunnyslope County Water District Reserve Policy

8600: Reserve Policy

8600.1 Purpose

The purpose of the Sunnyslope County Water District's (SSCWD) Reserve Policy is to ensure that the District will, at all times, have sufficient funding available to meet its operating, capital, and debt service cost obligations. Reserves will be managed in a manner that allows the District to fund costs consistent with its annual budget and Capital Improvement Program, while avoiding significant rate fluctuations due to changes in cash flow requirements.

The total of all the available reserves, which includes Board designated and undesignated reserves, but excludes legally restricted reserves, shall not fall below 50% of budgeted annual operating costs of the current fiscal year, consistent with the adopted water and wastewater rates. Adequate reserves and sound financial policies promote SSCWD's bond ratings in the capital markets; provide financing flexibility; avoid potential restrictive debt covenants; and ensure stable rates for the District's customers.

8600.2 Scope

The Reserve Policy covers all reserve funds of the District. At the end of each fiscal year, compliance with the Reserve Policy will be reported to the District's Board of Directors by looking at the reserve balances for the year then ended, compared to the total operating budget for the same fiscal year. As part of each fiscal year's budget adoption process, the new operating budget will be compared to the projected reserve balance.

8600.3 Reserve Fund Types Defined

There are three major types of reserve funds: Legally Restricted Reserves, Board Designated Reserves, and Unrestricted Reserves. Legally Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, or other restrictions. Board Designated Reserves are set aside for a specific purpose as determined by action of the Board of Directors. The Board of Directors has the authority to redirect the use of these reserves as the needs of the District change. Unrestricted Reserves are required for adequate cash flow to meet operating needs and are planned for a source of funding the Capital Improvement Program and to assist in providing for orderly rate increases.

8600.4 SSCWD Specific Reserve Fund Purposes

A. Legally Restricted Reserves

1. **CSWRCB SRF Loan:** This fund is governed by the California State Water Resources Control Board State Revolving Fund Agreement (SRF Loan). The SRF Loan Agreement requires the District to establish a Reserve fund equivalent to one year's debt service, which is approximately \$740,000. The SRF Loan matures in 2033.

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2. 2002 Revenue Bonds: The reserve requirements of the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds Series 2002A have been satisfied with an insurance policy purchased by SSCWD in 2002. The 2002 Revenue Bonds mature in 2032.
3. Water Capacity (Connection) Fees: Water capacity fees are collected from new development based on meter size to ensure that new customers pay their fair share of capital costs necessary to provide water service. Water capacity fee reserves may be used for capital improvements to the water system that expand capacity to serve the connections and to refurbish existing District facilities to maintain the capacity of the water system. Water capacity fee reserves will be drawn down and used prior to other District funds for qualifying projects.
4. Wastewater Capacity (Connection) Fees: Wastewater capacity fees are collected from new development based on equivalent dwelling units to ensure that new customers pay their fair share of capital costs necessary to provide wastewater service. Wastewater capacity fee reserves may be used for capital improvements to the wastewater system that expand capacity to serve the connections and to refurbish existing District facilities to maintain the capacity of the wastewater system. Wastewater connection fee reserves will be drawn down and used prior to other District funds for qualifying projects.

B. Board Designated Reserves

1. Capital Improvement Reserve Fund: This reserve is to fund two years of capital projects as planned in the Capital Improvement Program (CIP) and the two-year capital budget. The rationale for funding two fiscal years is that the typical construction season for many capital projects span the spring and summer months, which fall into two fiscal years. This reserve fund will reflect the financial plan and annual rate model along with other reserve funds to smooth future rate increases.

This reserve fund will be drawn down annually as revenue capital expenditures are made. At the end of each fiscal year, the fund balance will be evaluated and replenished based on the next two years' revenue funded capital requirements. Annual replenishment shall be reported to the Board of Directors as part of each Fiscal Year-End Financial Report.

2. Vehicle Replacement Fund: As vehicles are replaced a sinking fund will be created to capture the depreciated value of vehicles each year, which will be used to fund planned replacement of vehicles at the end of their useful lives. This reserve fund is utilized to cover equipment replacement while smoothing cash flows in the financial plan and rate model to minimize annual pressure on rates.

This reserve fund will be drawn down annually as replacement vehicles are purchased consistent with the adopted budget and as approved by the Board. At the beginning of each fiscal year, funds will be deposited in this sinking fund as provided for in the adopted fiscal year budget. Reserve deposits will be based on annualized depreciation

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of the vehicle as determined by the General Manager. Annual deposits shall be reported to the Board of Directors as part of each fiscal year-end financial report. In addition, interest earnings on fund balances will be deposited into the fund as will the net proceeds of the sale of retired/replaced vehicles and equipment. These additional deposits are to provide for inflationary increases to replacement vehicle and equipment costs. This fund shall be maintained at a minimum balance of the funds required for the following year's budgeted fleet replacements.

3. Emergency Equipment Replacement Fund: Occasionally, equipment at the District's wells, wastewater treatment plants, pump stations, and other facilities will fail unexpectedly requiring immediate replacement prior to a planned replacement through the capital improvement project. This fund is established to provide for those replacements. A minimum of \$50,000 will be maintained in the fund for any emergency repairs or replacements. The reserve fund balance shall be reported to the Board of Directors as part of each fiscal year-end financial report and the fund will be replenished at the beginning of each fiscal year, if drawn below minimum.
4. Office and Miscellaneous Equipment Replacement Fund: As office equipment and other miscellaneous equipment with a value of greater than \$1,000 is replaced, a sinking fund will be created to capture the depreciated value of the equipment each year to fund its planned replacement at the end of its useful life. This reserve fund is utilized to cover equipment replacement while smoothing cash flows in the financial plan and rate model to minimize annual pressure on rates.

This reserve fund will be drawn down annually as equipment is purchased consistent with the adopted budget and as approved by the Board. At the beginning of each fiscal year, funds will be deposited in this sinking fund as provided for in the adopted fiscal year budget. The fund balance shall be reported to the Board of Directors as part of each fiscal year-end financial report and the fund replenished at the beginning of each fiscal year.

5. Drought Contingency Reserve: Water sales revenue may be impacted under drought conditions due to reductions in consumption and due to regulatory or State and Federal mandated reductions in supply. Costs for water supply may also increase due to the need to purchase additional surface water. This fund is established to supplement water sales revenue at the direction of the Board of Directors. It will be initially funded in the amount of 10% of the projected water rate revenue for each fiscal year. The balance in this reserve may be increased or decreased as authorized by action of the Board based on the continuance and severity of a drought.

C. Unrestricted Reserves

The remaining funds will be classified as unrestricted reserves and will be drawn down over time to smooth rate increases and will be maintained at a minimum balance of six months of annual operating budget requirements, consistent with the Board's Rate Setting Policy.

