

## Sacramento Suburban Water District

**Reserve Policy**

Adopted: August 18, 2003  
Approved with Changes: August 19, 2024

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**100.00 Purpose**

The primary purposes of this policy are to establish a reserve fund level that is specific to the needs and risks of the District, to identify when and how reserve funds are utilized and replenished, and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

The District will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

The District's reserves and other cash balances are also evaluated by third-party credit rating agencies when determining the credit worthiness of the District. Care should be taken to balance the District's financial risks, credit rating and customer rate impacts when determining the appropriate amount of District reserves.

**200.00 Policy****200.10 Fund Classification Types**

The District shall maintain three fund classifications that collectively comprise the District's reserve fund balance. Fund classifications are a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon it. The fund classifications are - Restricted funds, Committed funds and Assigned funds, with distinction among the funds based on the relative strength of the constraints that control how amounts can be spent.

Restricted funds include amounts that can be spent only for specific purposes stipulated by law or third parties, such as grantors or creditors. Committed funds include amounts that can be used only for specific purposes as determined by Board action. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

## **200.20 Restricted Funds Classification**

Restricted funds are those financial assets subject to enforceable third party constraints, such as those imposed by creditors, grantors, laws or regulation.

**There are no designated restricted funds at this time.**

## **200.30 Committed Funds Classification**

Committed funds are those financial assets identified by the Board for specific purposes as determined by Board resolution or ordinance. Such financial assets are to be utilized only as directed by the Board.

### ***Capacity Reimbursement Fund***

As established by the Board in the District's Regulations Governing Water Service (Regulations), the District will retain a percentage Capacity Fees (CF) collected each fiscal year for the purpose of repaying individuals or businesses who were required to install up-sized lines or extension facilities at the request of the District. Disbursements will be made in accordance with the Regulations, including the release of unexpended funds into the District's unrestricted net position.

### ***Main Replacement Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this is a sinking fund to accumulate funds for the purpose of replacing existing water mains (transmission or distribution) and related appurtenances (services, valves, hydrants, etc.) where forecasted annual budget amounts are insufficient to cover anticipated costs. It is anticipated to be funded through unspent annual planned transmission and distribution (T&D) expenditures or at the direction of the Board. There is no minimum target level for this fund. This fund shall not be included in the minimum reserve fund balance target.

### ***Well Development Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this is a sinking fund to accumulate funds for the purpose of developing new wells or for well treatment where forecasted annual budget amounts are insufficient to cover anticipated costs. This fund will be funded and expended at the direction of the Board of Directors. There is no target level for this fund and this fund shall not be included in the minimum reserve fund balance target.

## **200.40 Assigned Funds Classification**

Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board as needs arise.

### ***Emergency/Contingency Fund***

Financial assets held for purposes of continued operations during times of severe economic distress due to events that require an immediate and/or significant use of cash. Such severe economic situations may include otherwise insurable events for which the timely receipt of cash may be delayed. The District shall target a balance of three percent (3%) of its prior year-end total assets in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be determined by the Board.

Prior to amounts being expended from this fund, the District shall establish a contingency plan that addresses, at a minimum:

1. The reason(s) for expenditures from this fund.
2. Amounts expected to be expended.
3. The funds replenishment timeline and funding source.

### ***Operating Fund***

Financial assets held primarily for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The District shall target a balance of 120 days (33%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. The minimum balance in this fund shall be 90 days (25%) of its current year's budgeted annual expenditures for operating costs and debt service. Conditions for utilization of these reserves and a plan for fund replenishment will be determined by the Board.

The operating fund reflects the timing difference between billing for revenues and payment of expenses. The target level is a financial measure or guideline. If the fund level drops below the twenty-five percent minimum balance, that is a sign for staff to review the fund and, if necessary, bring recommendations to the Board to replenish the fund and assure the fund will not continue to decline.

### ***Rate Stabilization Fund***

Financial assets held for purposes of managing cost variability in obtaining, treating and delivering potable surface water and groundwater. This Fund is focused on consumption fluctuations related to customer demand and purchasing of surface water as part of the District's conjunctive use efforts. Consumption charges established in the rate setting process forecast customer demand based on a repeat of average, recent climactic conditions. Surface water purchases are based on take-or-pay agreements and on the availability of surface water for purchase. Financial fluctuations occur when situations vary from the assumptions. The District shall target a balance of forty percent (40%) of its current year's budgeted consumption revenues (water usage) in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be determined by the Board.

### ***Grant Fund***

Financial assets held for purposes of funding the "local cost share" and advance payment of eligible reimbursable costs on capital projects funded partially from grant

awards. As eligibility for potential grant awards requires the District to demonstrate financial viability to fund anticipated project costs, the District shall maintain a minimum balance equal to the combined sum of anticipated costs for those projects considered grant eligible in the upcoming biennial period. The Grant Fund will be funded from the Capital Asset Fund or as directed by the Board. Conditions for utilization of such reserves and a plan for fund replenishment will be determined at the time of grant award.

#### ***Capital Asset Fund***

Financial assets held for purposes of funding District capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. The District shall target a fund balance of fifty percent (50%) of the annualized average of the future five years of the planned Capital Program (CIP & OCP) expenditures. The minimum balance in this fund shall be equivalent to the prior year's annual depreciation expense. Well property acquisition amounts will be funded as defined in the section "Well Property Acquisition Fund." The District shall target a balance to sufficiently fund anticipated capital improvement project replacement cost deviations above the capital budget funding level. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

#### ***Well Property Acquisition Fund***

This Fund is a component of the Capital Asset Fund. Amounts established for this Fund shall be established through the annual budget process. The District shall target a balance to sufficiently fund anticipated property acquisitions. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

#### ***Capacity Fee Fund***

Financial assets held for expenditure on growth/capacity-related capital asset projects only. Amounts deposited into this fund come from unexpended facility development charges collected from developers (see related Capacity Reimbursement Fund in section 200.30 above.) These growth/capacity-related capital asset projects form the cost-basis and legal nexus for the establishment and collection of the Capacity Fees. This fund is dependent upon customer growth. Therefore, there is no prescribed target or minimum balance.

### **300.00 Disposition of "One-Time" Revenues**

"One-time" revenues are revenues of an unusual or infrequent nature which are likely not the result of the District providing services and producing and delivering goods in connection with the District's principal ongoing operations (e.g. legal settlement). Unless specifically earmarked by Board action otherwise, "one-time" revenues should be transferred to the appropriate reserve fund which best represents the reason for the "one-time" revenue.

### 310.00 Reserve Fund Liquidity

The District's Reserve Funds are invested in accordance with the District's Investment Policy (PL – Fin 003). The District's investments primarily have durations between 0 and 5 years. The investment portfolio's duration is established based on certain benchmarks. In order to have reserve funds available for use, a portion of the reserve funds need to be short-term investments (12 months or less) or cash and cash equivalents. The District shall have a liquidity target of 50% of the current year's Operating Budget (O&M) plus 50% of any Committed Fund balances. For the purpose of calculating liquidity versus the target, all District cash and cash equivalent balances shall be included.

### 400.00 Target Funding Level

A summary of reserve fund classifications and funding levels is shown below:

<b>Fund Classification</b>	<b>Funding Level</b>
Capacity Reimbursement Fund	20% of CF charges collected annually less developer payouts.
Emergency/Contingency Fund	3% of prior-year end total assets.
Operating Fund	33% of budgeted annual operating and debt service expenditures.
Rate Stabilization Fund	40% of budgeted water consumption revenues.
Grant Fund	Sufficient to pay for "local cost share" on all outstanding and applied-for grants. Funds from Capital Asset Fund.
Capital Asset Fund	50% of the annualized average of the projected future five years of capital expenditures.
Capacity Fee Fund	Remaining amounts of CF Charges after amounts used by Capacity Reimbursement Fund expended. For new or replacement capacity related infrastructure.
Main Replacement Fund	No minimum. Funded as directed by the Board or from unspent budgeted T&D funds.
Well Development Fund	No minimum. Funded as directed by the Board or from unspent Well Development budgeted funds.

**410.00 Reserve Fund Valuation**

For the purposes of calculating the reserve fund balances for comparing to the target levels, investments will be valued at market on the date of valuation.

**500.00 Authority**

The General Manager is responsible for the appropriate accounting and regular reporting of the District's reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

**600.00 Procedure**

District staff will maintain procedures for each fund classification, to be approved by the General Manager, and in conformance with this Policy.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five (5) year period to the established or re-established target as directed by the Board.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of reserve funds dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

**700.00 Policy Review**

This Policy shall be reviewed annually by the Board of Directors as part of the annual budget adoption process.