
SAN JUAN WATER DISTRICT
POLICIES

POLICY TYPE: General Policies
POLICY TITLE: Reserve Policy
POLICY NUMBER: 3910
DATE ADOPTED: September 25, 2018
DATES AMENDED:

3910.00 Reserve Policy

The District will maintain reserve funds where required by law, ordinance or bond covenant, or this policy.

3910.01 Purpose of the Policy

The primary purposes of this policy are to: establish the types and target levels of various operating and capital reserve funds, specific to the needs and risks of the District; identify when and how reserve funds are utilized and replenished; and recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve funds and designations of net position comprise various funds established for specific purposes and to reduce certain risks. Collectively, these designations and funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

3910.01 Fund Classification Types

The District shall maintain four funds that contain or comprise the District's reserves. For legal purposes, including the preparation of the Comprehensive Annual Financial Report (CAFR), the District is one Enterprise Fund (in accordance with state law and Generally Accepted Accounting Principles). However, for purposes of rate setting and reserve tracking the District has established the following four funds:

1. Wholesale Operating Fund
2. Retail Operating Fund
3. Wholesale Capital Fund
4. Retail Capital Fund

Establishment of Reserves

The District hereby establishes the following reserves:

1. Wholesale Operating Reserve
2. Retail Operating Reserve
3. Wholesale Capital Reserve
4. Retail Capital Reserve

Wholesale Operating Reserve

The Wholesale Operating Reserve is maintained as a designation of net position within the Wholesale Operating Fund. The purpose of the reserve is to provide sufficient funds (working capital) for operations of the District.

The reserve will be maintained in an amount equal to at least twenty percent of the annual operating expenditures (excluding depreciation).

Any excess of net position above the required twenty percent will be transferred to the Wholesale Capital Reserve Fund unless the Capital Reserve Fund is fully funded.

If both the Wholesale Operating and Capital Reserves are fully funded, the Board will consider a reduction to Wholesale Water Rates.

Retail Operating Reserve

The Retail Operating Reserve is maintained as a designation of net position within the Retail Operating Fund. The purpose of the reserve is to provide sufficient funds (working capital) for operations of the District.

The reserve will be maintained in an amount equal to at least twenty percent of the annual operating expenditures (excluding depreciation).

Any excess of net position above the required twenty percent will be transferred to the Retail Capital Reserve Fund unless the Capital Reserve Fund is fully funded.

If both the Retail Operating and Capital Reserves are fully funded, the Board will consider a reduction to Retail Water Rates.

Wholesale Capital Reserve

The Wholesale Capital Reserve comprises the Wholesale Capital Fund. The purpose of the reserve is to accumulate funds necessary to pay for the replacement of aged assets and to fund new assets as deemed necessary by the Districts Master Plan and Capital Improvement Plan.

The Board has designated certain revenue streams to be accounted for within this fund and dedicated to the Capital Program as follows:

- Wholesale Capital Contributions
- Investment Earnings on Cash held in the Reserve Fund
- One Half of Property Tax Revenue
- Wholesale Tapping & Connection Fees
- Gain/Loss on Sale of Wholesale Assets
- Proceeds of debt issued to fund wholesale capital projects
- Transfers in from the Wholesale Operating Fund

The sum of all revenue sources should be at least equal to the amount of annual depreciation for Wholesale's fixed assets.

The reserve will maintain a minimum balance sufficient to pay for the current and next year's capital improvement budget.

In order to avoid and/or minimize the future issuance of debt for capital asset replacement, the District desires to maintain a balance at least equal to the accumulated depreciation for existing Wholesale assets, adjusted for inflation. If the Reserve balance is below this threshold, the District will work towards increasing the reserve balance or designate certain large capital replacement projects to be funded by the issuance of debt.

Retail Capital Reserve

The Retail Capital Reserve comprises the Retail Capital Fund. The purpose of the reserve is to accumulate funds necessary to pay for the replacement of Retail's aged assets and to fund new Retail assets as deemed necessary by the Districts Master Plan and Capital Improvement Plan.

The Board has designated certain revenue streams to be accounted for within this fund and dedicated to the Capital Program as follows:

- Retail Capital Contributions
- Investment Earnings on Cash held in the Reserve Fund
- One Half of Property Tax Revenue
- Retail Tapping & Connection Fees
- Gain/Loss on Sale of Retail Assets
- Proceeds of debt issued to fund capital projects
- Transfers in from the Retail Operating Fund

The sum of all revenue sources should be at least equal to the amount of annual depreciation for Retail's fixed assets.

In order to avoid and/or minimize the future issuance of debt for capital asset replacement, the District desires to maintain a balance at least equal to the accumulated depreciation for existing Retail assets, adjusted for

inflation. If the Reserve balance is below this threshold, the District will work towards increasing the reserve balance or designate certain large capital replacement projects to be funded by the issuance of debt.

Other/Restricted Reserves

Restricted funds are those financial assets subject to enforceable third party constraints, such as those imposed by creditors, grantors, laws or regulation, including Debt Service Reserves required by Board approved Trust Agreements entered into for the issuance and repayment of debt.

3910.01 Use of Reserves

Operating Reserves

The Operating Reserves are to be utilized throughout the year to provide the necessary cash flow for operations. Absent an emergency, the fund should be restored to its target level at the end of each fiscal year.

The fund may be set a level lower than 20% of Operating Expenses only with express approval from the Board of Directors.

Capital Reserves

Capital Reserves are to be spent on the acquisition of new or replacement assets as governed by the approved budget for the fiscal year.