

Policy No.: P400-15-1	Type of Policy: Finance
Policy Title: Financial Reserves	
Policy Description: Provides guidance for the prudent accumulation and management of designated reserves.	
Approval Date: 6/2/2015	Last Review Date: 2015
Approval Resolution No.: 40-15	Next Review Date: 2019
Rescinded Resolution No.: 73-14	Rescinded Resolution Date: 11/18/2014

It is the policy of the Board of Directors of Dublin San Ramon Services District:

To designate financial reserves in order to protect the District's investment in its various assets, satisfy its commitments under its numerous financial, regulatory and contractual obligations and to stabilize long-term rates for its customers.

Designated reserves are earmarked by the Board of Directors for purposes such as funding new capital facilities, construction, repair, replacement or refurbishment of existing facilities, rate stabilization, emergency and operating reserves. These funds can be utilized at the discretion of the District. The Board can change fund designations at any time. Designated reserves are different than restricted funds, which are used strictly to meet requirements established by creditors, grant agencies or law. Reserves held by a third-party as bond reserves or for pension obligations are examples of restricted reserves; the District has no discretion as to the use of these funds.

If the District is contractually obligated to hold additional reserves, the more stringent requirement takes precedence. In addition, if there is a declared emergency, the General Manager may utilize any unrestricted funds in accordance with the emergency purchasing policy.

To accomplish these objectives, the District shall adhere to the following:

Operating Reserves

Purpose: The purpose of Operating reserves (referred to as working capital) is to ensure adequate cash is available when needed to pay the District's normal and recurring operating costs.

Use of Funds: Funds are utilized throughout the year in order to meet the District's operating obligations.

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Target: Working capital equal to four months of budgeted operating expenses in each Operating Fund.

Minimum: Two months of budgeted operating expenses in each operating Fund. If reserves fall below this level, the District’s Rate Policies and Guidelines outline additional steps that shall be followed.

Maximum: Six months of budgeted operating expenses in each Operating Fund. If reserves are above this level at fiscal year end, the excess funds shall be moved into the Enterprise’s Rate Stabilization Fund.

Reporting: Working capital for each of the Enterprise’s Operating Funds shall be reported in the District’s monthly financial reports.

Rate Stabilization Fund Reserves

Purpose: The purpose of Rate Stabilization Fund (RSF) Reserves is to support the Board’s strategic goal to manage public funds to assure financial stability, including stability of revenues and the rates and charges related to each Enterprise.

Over the course of time, the District will have years where there is a financial surplus above the working capital target for one or more of the District’s Enterprises, and years when unexpected events may cause reserves to decrease below the target. The Rate Stabilization Fund allows the District to manage these different sets of circumstances.

Use of Funds: Each Enterprise’s Rate Stabilization Reserves are assessed at fiscal year-end.

- If the Reserves in any Operating Fund has decreased below the working capital target, a transfer from the Rate Stabilization Fund to the corresponding Operating Fund of no more than one-quarter of the Rate Stabilization Fund’s balance shall be made in an effort to bring the Operating Fund back to its working capital target.
- If any Enterprise Fund has exceeded its working capital target by an amount equal to an additional two months of working capital, the General Manager shall direct the Treasurer to transfer the excess working capital from the Enterprise Fund to the Rate Stabilization Fund for that Enterprise.
- The Board may also budget use of these funds for other purposes.

Target: Four months of the related Enterprise Fund’s budgeted operating expenses.

Minimum: Two months of the related Enterprise Fund’s budgeted operating expenses.

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Maximum: If the combined total of the Operating and the corresponding RSF exceeds 12 months working capital, the General Manager will make a recommendation to the Board of Directors as to how the funds should be used.

Reporting: The General Manager shall report annually to the Board of Directors on the results of the assessment.

Capital Asset Replacement & Improvement Reserves

Purpose: The purpose of Capital Asset Replacement & Improvement Reserves is to ensure that adequate funds are available to purchase new capital assets that benefit current ratepayers, to fund replacements, improvements and major refurbishments to existing capital assets and to provide two year’s debt service for debt which the Board has allocated to this fund.

Use of Funds: Funds are utilized in accordance with the budget adopted by the Board of Directors.

Minimum: The minimum replacement reserve shall consist of the sum of the following components:

- 1) An amount based on the 15-year cost projections included in the District’s Replacement Planning Model and the District’s 10-year Capital Improvement Plan which is equal to two times the average annual expense; and
- 2) A debt reserve of two year’s average debt service (or for any debt that has less than two years remaining, the entire remaining amount).

Revisions: It is the intent of the Board that this the Capital Asset and Replacement & Improvement reserve section of this policy be a “bridge policy” and that asset-management driven changes be made to the policy as the condition assessment of District assets and strategies for managing those assets become better understood.

Reporting: The General Manager shall report annually to the Board of Directors on the results of the assessment.

Capital Expansion Reserves

Purpose: The purpose of Capital Expansion Reserves is to minimize the need for ratepayers to pay for expansion debt by having sufficient reserves on hand to pay annual debt service on District bonds or loans for a two-year period.

Use of Funds: Funds are utilized in accordance with the budget adopted by the Board of Directors and applicable laws related to use of Capacity Reserve Fees.

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- Target:** Two years of average debt service (or for any debt that has less than two years remaining, the entire remaining amount) charged to the Expansion Fund, plus two years of expansion project spending as projected in the District’s most current two-year Capital Improvement budget.
- Minimum:** A minimum reserve consists the greater of the reserve for the debt service or the next two years of planned expansion projects.
- Maximum:** There is no maximum reserve in this fund; Capacity Reserve Fees may be accumulated and used for their intended purpose with no maximum reserve limitation.
- Reporting:** The General Manager shall report annually to the Board of Directors on the results of the assessment.