



Policy No.:	P400-24-6	Type of Policy:	Finance
Policy Title:	Financial Reserves		
Policy Description:	Provides guidance for the prudent accumulation and management of designated reserves.		
Approval Date:	11/19/2024	Last Review Date:	2024
Approval Resolution No.:	49-24	Next Review Date:	2028
Rescinded Resolution No.:	40-15	Rescinded Resolution Date:	6/2/2015

The purpose of this policy of the Board of Directors of Dublin San Ramon Services District is to designate financial reserves to protect investment in District assets, satisfy commitments under numerous financial, regulatory and contractual obligations, and to stabilize long-term rates for 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 District discretion with certain restrictions where they apply. The Board can change designated reserve levels at any time. Designated reserves are different than restricted funds which are restricted as to use by creditors, grant agencies or law. Reserves held by a third-party in an irrevocable trust used to pay employee benefits are examples of restricted reserves that may not be used for any purpose other than the purpose of the trust.

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 District Code.

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 quarterly 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.

Maintain Operating Fund Reserves at Target Level

If the Reserves in any Operating Fund at fiscal-year end are 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.

Maintain CalPERS Pension Funded Ratio Between 80% and 90%

If the CalPERS Pension funded ratio is below 80%, prioritize surplus Rate Stabilization Fund reserves to make additional discretionary Unfunded Accrued Liability (UAL) payments in an effort to bring the ratio above 80%.

Policy No.: P400-24-6**Policy Title:** Financial Reserves**Allocate Surplus Reserves to Capital Replacement Funds**

If the Reserves in any Rate Stabilization Fund at fiscal-year end are above the maximum reserve level, a transfer from the Rate Stabilization Fund to the corresponding Replacement Fund may be made.

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.

Maximum: Six months of the related Enterprise Fund's budgeted operating expenditures. 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 and make recommendations on the use of funds.

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 a minimum of one 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.

Target: The target replacement reserve shall consist of the sum of the following components:

- 1) An amount based on the District's Asset Replacement Planning Model and which is equal to two times the 15-year average annual expense in the Capital Improvement Plan; 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).

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

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

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Maximum: There is no maximum reserve in this fund; Reserves may be accumulated and used for their intended purpose.

Revisions: It is the intent of the Board that asset-management driven changes be made to the Capital Asset and Replacement & Improvement Reserves section of this policy based on the Asset Replacement Planning Model, the condition assessment of District assets and strategies for managing those assets.

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.

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 of the greater of the reserve for 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.