

# Financial Reserves Policy

**Board of Directors Meeting  
November 19, 2024**

Corinne Ferreyra  
Senior Management Analyst





## Agenda

- Overview of current policy
- Proposed revisions
- Next steps



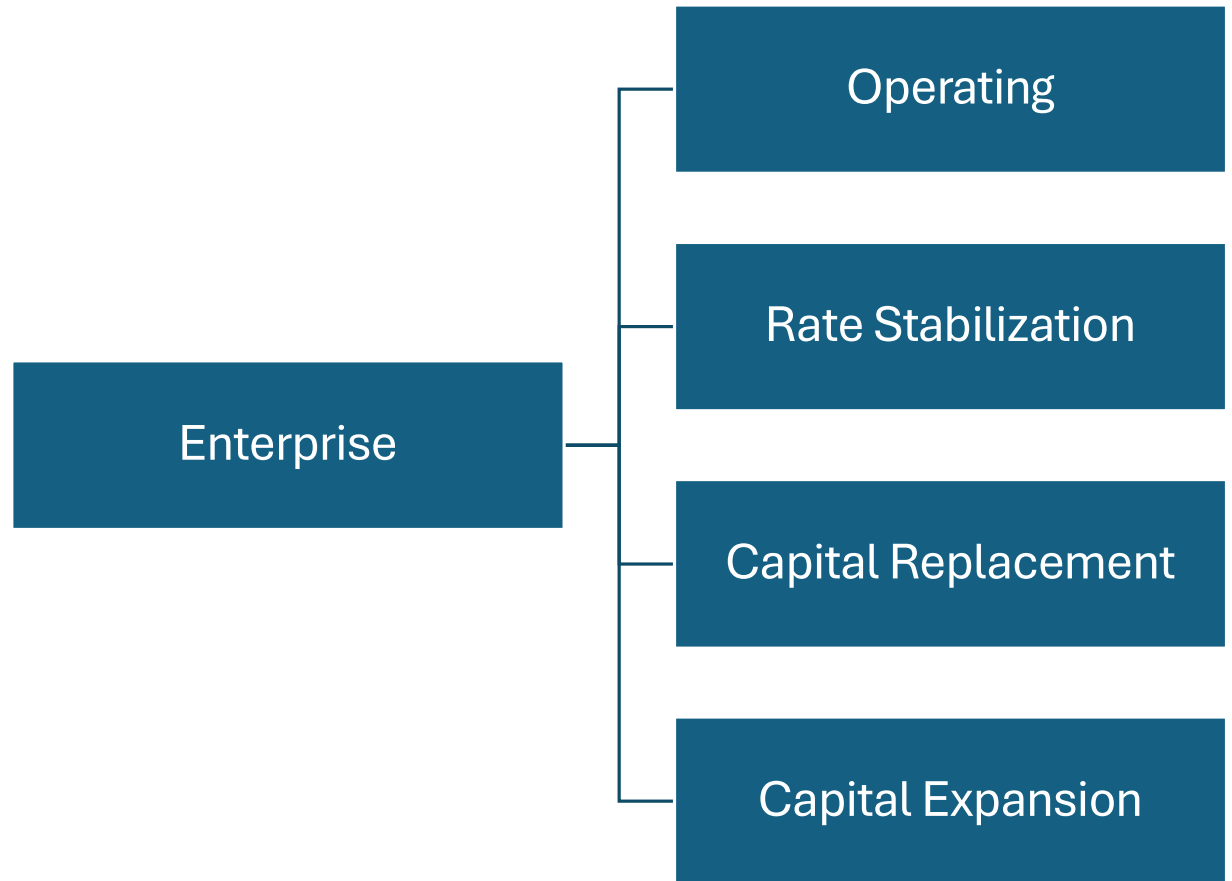
# Purpose

*Provide guidance for the prudent accumulation and management of designated reserves.*



125,058	154,568	95,054	124,5
125,487	56,845	97,511	125,
124,000	110,000	99,011	154,
105,450	150,000	99,216	9
86,502	35,000	101,090	1
	83,000	101,684	
	45,000	101,962	
		102,747	
		006	

# Fund Structure



# Policy Elements



**Purpose**



**Use of Fund  
Reserves**



**Reserve Levels**



**Reporting  
Requirements**

# Reserve Levels – Operating & Rate Stabilization

	Months of Budgeted Operating Expenses		
	<u>Operating</u>	<u>Rate Stabilization</u>	<u>Combined</u>
Minimum	2	2	4
Target	4	4	8
Maximum	6	6	12

# Reserve Levels – Capital Replacement & Expansion

	Months of Budgeted Operating Expenses	
	<u>Replacement</u>	<u>Expansion</u>
Minimum	Two times the average annual 15-year budgeted expense <i>and</i> two year's average debt service	Greater of the reserve for debt service or the next two years of planned expansion projects
Target	n/a	Two years of average debt service plus two years of expansion project spending
Maximum	n/a	None

# Proposed Policy Revisions

1

Rate Stabilization  
Fund

Manage Long-Term  
Pension Liability

2

Capital Replacement  
Fund

Establish Target and  
Revised Minimum

3

Minor Language  
Clarifications



# Long Term Pension Liability

CalPERS defined benefit pension plan

Annual Valuation Report

Employer contribution

- Normal Cost
- Unfunded Accrued Liability (UAL)

# Rate Stabilization Fund

## October 17, 2023 Board Direction

1. Establish a minimum funded ratio threshold of 80% and a target funded ratio of 90%
2. Prioritize Rate Stabilization Fund (RSF) transfers toward UAL liabilities
3. Allocate additional discretionary payments equal to 15% of annual UAL obligations



Proposed as Policy Revisions



Proposed in Operating Budget

# Proposed Policy Revisions

1

Rate Stabilization Fund  
Manage Long-Term Pension Liability

2

Capital Replacement Fund  
Establish Target and Revised Minimum

# Capital Replacement Fund

## 2015 Board Direction – “Bridge Policy”

- Current minimum reserve is twice the average annual expense of planned capital projects
- Intended to keep a conservative reserve level until Asset Management Program could be refined

# Asset Management Program Progress

Figure 6 – Water Long-Term Replacement Costs

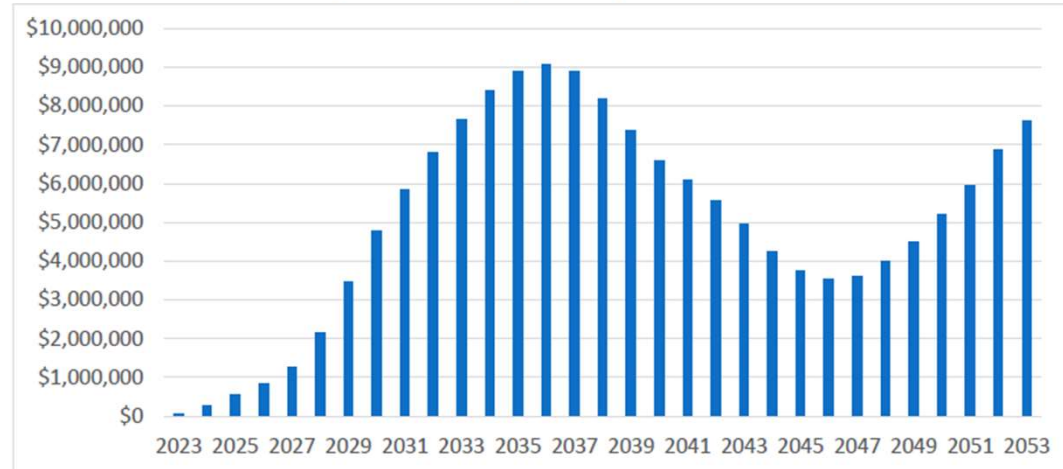
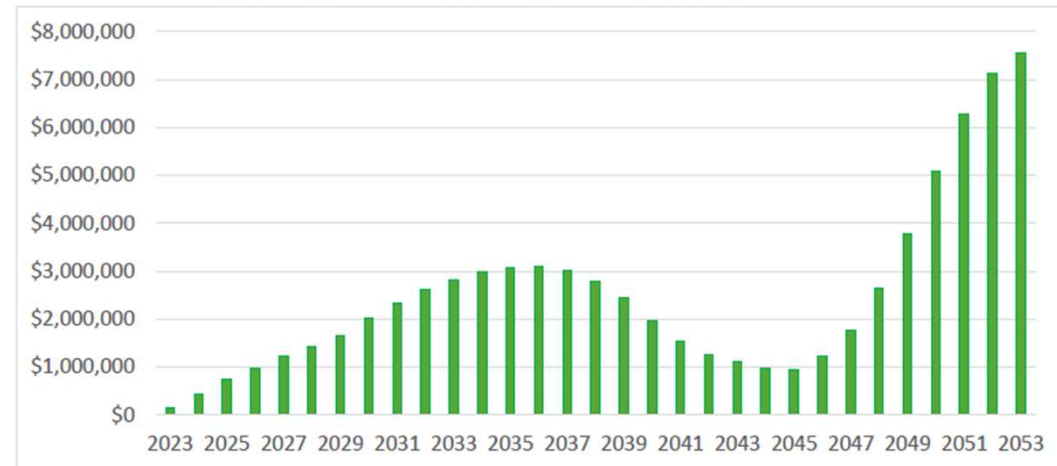


Figure 5– Regional Wastewater Long-Term Replacement Costs



# Capital Replacement Fund

1. Change the current minimum reserve (twice 15-year average annual expense) to a target reserve
2. Revise the minimum reserve to the average annual expense in the District's Capital Improvement Plan

# Recommendation & Next Steps

Staff recommends the Board of Directors adopt, by Resolution, a revised Financial Reserve Policy and rescind Resolution No. 40-15.

The Policy would become effective immediately and be scheduled for review in 2028.

Review Fiscal Year 2024 Rate Stabilization Fund Annual Report and CalPERS Annual Valuation Report in February 2025.

Additional discretionary payments equal to 15% of the annual UAL normal cost to be included in the proposed Fiscal Year 2026 and 2027 Operating Budget.



---

# Questions?