

SOUTH PLACER MUNICIPAL UTILITY DISTRICT POLICIES

Policy Name:	3130 – RESERVE POLICY		
Approval Authority:	SPMUD BOARD OF DIRECTORS	Adopted:	09/03/2015
Resolution No.	15-23, 20-08	Revised:	03/05/2020

PURPOSE

The purpose of this policy is to ensure that SPMUD will at all times have sufficient funding available to meet its operating and capital needs, anticipate and prepare for future funding requirements as well as plan for disasters and other unforeseen events.

POLICY STATEMENT

Section 1. General

Reserve funds will be accumulated and maintained in a manner that allows the funding of costs and capital investments consistent with the District’s Capital and Financial Plans while avoiding significant rate fluctuations due to changes in cash flow requirements. The District will also maintain an emergency reserve position that may be utilized to fund disasters or unanticipated major failures. The classification of these reserve fund balances shall be in conformance with Government Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Section 2. Definitions

Per GASB 54, fund balance will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Non-spendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- *Assigned fund balance*—amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

Section 3: General Fund (Fund 100)

A. Assigned Fund Balance Reserves

- i. Operation and Maintenance Reserve

The purpose of the Operation and Maintenance (O&M) Reserve Fund is to ensure that the District will have sufficient funding available at all times to meet its operating obligations. Operating revenue is flat rate and consistent over the year. Delinquencies are trued up through tax liens which are recoverable twice a year. Operating expenses are generally incurred uniformly over the year, however, work can be planned or deferred during the year to accommodate minor fluctuations in revenue. The source of funding for this reserve shall be from Sewer Service Charges.

The District shall maintain an O&M Reserve Fund equivalent to 3 months O&M expenses.

ii. Rate Stabilization Reserve

The purpose of the Rate Stabilization Reserve Fund¹ is to establish a means to provide more stable sewer service charges to the District's customers. This fund buffers the impacts of unanticipated fluctuations or revenue shortfalls in sewer revenues and should be capable of defraying the need for an immediate rate increase to cover the cost of an unanticipated rise in expenses. Unexpected fluctuations can include, but are not limited to natural disasters, an economic downturn, and unanticipated increases in other utility expenses and/or other extraordinary circumstances. The source of funding for this reserve shall be from Sewer Service Charges.

The District shall maintain a Rate Stabilization Reserve Fund equivalent to 10% of the annual revenue.

iii. Emergency Reserve

The purpose of the Emergency Reserve Fund is to provide funds for emergency response for potential repair or replacement of capital facilities due to damage from a natural disaster or unanticipated failure. The Emergency Reserve would be used when capital improvement funds have otherwise been purposefully spent down to a preset limit on planned projects. The source of funding for this reserve shall be from Sewer Service Charges.

The District shall maintain an Emergency Reserve equivalent \$3 Million.

Section 4: Capital Funds

A. Committed Fund Balance Reserves

i. Capital Improvement Fund Reserve (Fund 300)

The purpose of the Capital Improvement Reserve is to fund on a pay-as-you-go basis future capital facilities that are expansion or growth related. These capital improvements will be identified in a Wastewater Collection Master Plan, a System Evaluation and Capacity Assurance Plan or other such capital improvement plan designated by the District. These funds are accumulated in an orderly

¹ This Rate Stabilization Reserve fund contemplated by the District should not be confused with the Rate Stabilization Fund (RSF) currently held by the South Placer Wastewater Authority. Bonds sold by SPWA and cash contributed by the SPWA participants funded construction of the Pleasant Grove Treatment Plant. The bond payments are made from the RSF from revenues generated from regional connection fees separate and distinct from the District's Sewer Participation Fee, although they are collected at the same time. SPMUD is liable for 25% of the total annual debt service, which calculates to approximately \$2.6 M annually. The District has covenanted to prescribe and collect rates and charges sufficient to yield net revenues at least equivalent to 110% of its share of debt service.

manner in conformance with State law and drawn down as required by growth related projected. The source of funding for the Capital Improvement Reserve shall be the Sewer Participation Fee.

B. Assigned Fund Balance Reserve

i. Capital Replacement and Rehabilitation Fund (Fund 400)

The purpose of this fund is to accumulate the probable replacement cost of equipment each year over the life of the asset, so it can be replaced readily when it becomes obsolete, are totally depreciated or are scheduled for replacement. Annual depreciation is calculated as a function of the depreciation schedule maintained within the District's Financial Management Software. The source of funding for this reserve shall be in the form of an annual operating expense (transfer) to the Capital Replacement (Depreciation Reserve) Fund.

The District shall incur an annual expense equivalent to the annual depreciation and accumulate this balance in a Capital Replacement and Rehabilitation Fund to fund replacements of assets that have reached their useful life or are fully depreciated.