

DISTRICT RESERVE POLICY UPDATE


BACKGROUND: In January 2018 the Finance Committee reviewed the funding levels and priority of the District's Reserve Policy. The Committee discussed various options on how to prioritize accessing the funds and the level of funding for each of the areas. The Committee decided it would be best to have the full Board review and discuss the Policy. They requested Staff to place the Reserve Policy proposed changes on the agenda of the March 21st Special Meeting for discussion.

The Reserve Policy proposed changes are finalized and attached for approval as discussed in the Strategic Plan Workshop on March 21st, 2018

RECOMMENDATION: Approve the District Reserve Policy Update

ATTACHMENT:

1. Current District Reserve Policy
2. Updated District Reserve Policy



PREPARED BY: _____
Jeffrey Kingston, General Manager

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2017 - 18 BUDGET
RESERVE POLICY UPDATE
 Updated April, 2, 2018
RESERVE POLICY

	OPERATING	CAPITAL	REPAIR AND REPLACEMENT	DISASTER RECOVERY RESERVE	SELF-INSURANCE AND DEDUCTIBLE	TOTAL COMBINED
Purpose	Provide working capital for operating expense cash flow during year.	Provide capital for major capital projects in 10 year capital program.	Provide capital for renewal and replacement of equipment and appurtenant assets.	Provide additional capital funding for emergency recovery until long-term funding is arranged from rate increases, loans, debt.	Provide funding for the deductibles of the various insurance policies carried by the District.	
			<u>Current Reserve Levels</u>			
FY 2016/17 - Fiscal Year Ending Balance	\$2,634,562	\$6,264,840	\$423,318	\$500,000	\$0	\$9,822,720
FY 2017/18 - Projected Fiscal Year Ending Balance	\$1,978,543	\$4,027,981	\$220,000	\$2,500,000	\$100,000	\$8,826,524
			<u>Long Range Target Level Goals</u>			
Target Balance	\$1,978,543 Six-months of annual operation and maintenance expenses.	\$4,027,981 1.5 times the average annual 10-year CIP expense. Includes debt service payments.	\$220,000 Two-years of average annual renewal replacement costs	\$2,500,000 One-year of average annual 10-year CIP cash funded capital expense.	\$100,000 To be adjusted if there are changes to policy coverages or deductibles.	\$8,826,524
Minimum Balance	\$323,797 Two months of annual operation and maintenance expenses. Also funding to cover any restricted reserve obligations.	\$1,777,981 Funding to cover the 10-year CIP debt service and other restricted reserve obligations.	\$110,000 One-year of average annual renewal and replacement costs.	\$1,250,000 Minimum funding to aid in disaster recovery.	\$100,000 Minimum funding for the deductible portion for the various insurance policies carried by the District.	\$3,561,778
Other Financial Policies and Rate-Making Guidelines						
Reserve funding priority: Disaster Recovery, Capital, Self-Insurance and Deductible Reserve, R&R, and Operating. Maintain adequate Capital Reserve to fund CIP, but debt financing may be required for major upgrades. Maintain adequate R&R Reserve to avoid debt financing minor facilities. Rate increases will be moderated to minimize rate shock (e.g., phase in increases, avoid excessive increases followed by decreases). Rates are adjusted to keep pace with inflationary cost increases. When reserve balances allow, inter-fund borrowing and transfer may occur as a means of rate stabilization and to permit responses justifying spending of any reserve amount.						