Agenda Item: IV.B.
Date: April 2, 2024

Approve the District's Reserve Policy Amendment to the Sausalito-Marin City Sanitary District Financial Policies – Treasury Section: Item IV.B. – Designations of Unrestricted Reserves

---

Background: In April 2018, the Board approved changes to the Reserve Policy Chart which included prioritizing the funds and the level of funding for each of the areas. For the past 6 months, the Finance Committee, Staff and Rate Consultants HF&H have been discussing adding a fund for Medical (OPEB – Other Post-Employment Benefits) and Pension Unfunded Accrued Liabilities (UAL) and include this cost in the current Rate Study for FY 2024/25 to FY 2028/29.

The District has future employee retirement pension and medical benefit obligations or liabilities. To understand and plan for the future cost of these benefits, an actuarial study is periodically completed. Trusts have been established and funded to offset the projected liabilities. A reserve has also been created and funded using rate revenue to supplement the existing pension (CEPPT) and medical (CERBT) trusts to fund the estimated cost of these pension and medical benefit liabilities.

The District's Pension Benefits UAL is currently $1,905,197 and is partially funded with a CEPPT Trust balance of $1,242,011. The remaining liability of $663,186 is scheduled to be funded through annual contributions of $125,000 from rate revenues and held in the District Reserve Policy.

The District's Medical (OPEB) Benefits UAL is $3,546,453 and is partially funded with a CERBT Trust balance of $2,311,163. The remaining liability of $1,235,290 is scheduled to be funded through annual contributions of $125,000 from rate revenues, also held in the District Reserve Policy.

At this rate of contribution, the District's remaining pension and medical liabilities should be funded by FY 2028-29, however it is important to note that each time an actuarial study is performed, these liabilities may increase or decrease.

Recommendation: Approve the District's Reserve Policy Amendment to the Sausalito-Marin City Sanitary District Financial Policies – Treasury Section: Item IV.B. Designations for Unrestricted Reserves

Attachment:
1. Current District Reserve Policy Chart
2. Updated District Reserve Policy Chart
3. Amended Treasury Section Item IV.B. Designations of Unrestricted Reserves

Prepared By: ______________________________
Jeffrey Kingston, General Manager

Attachment IV.B.1.

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2023/2024 BUDGET

RESERVE POLICY	DISASTER RECOVERY	CAPITAL	SELF-INSURANCE AND DEDUCTIBLE	REPAIR AND REPLACEMENT	OPERATING	TOTAL
PURPOSE	Provide additional capital funding for emergency recovery until long-term funding is arranged from rate increases, loans, debt.	Provide capital for major capital projects in 10 year capital program.	Provide funding for the deductibles of the various insurance policies carried by the District.	Provide capital for renewal and replacement of equipment and appurtenant assets.	Provide working capital for operating expense cash flow during year.	
			CURRENT RESERVE LEVELS			
FY 2023/24 - FISCAL YEAR ENDING BALANCE (Projected)	$2,500,000	$3,637,400	$100,000	$220,000	$2,480,946	$8,938,346
			LONG RANGE TARGET LEVEL GOALS			
TARGET BALANCE	$2,500,000	$3,637,400	$100,000	$220,000	$2,480,946	$8,938,346
CRITERIA	One-year of average annual 10-year CIP cash funded capital expense.	1.5 times the average annual 10-year CIP expense. Includes debt	To be adjusted if there are changes to policy coverages or deductibles.	Two-years of average annual renewal replacement costs	**Six-months** of annual operation and maintenance expenses.	
MINIMUM BALANCE	$1,250,000	$2,137,400	$100,000	$110,000	$826,982	$4,424,382
CRITERIA	Minimum funding to aid in disaster recovery.	Funding to cover the 10-year CIP debt service and other restricted reserve obligations.	Minimum funding for the deductible portion for the various insurance policies carried by the District.	One-year of average annual renewal and replacement costs.	**Two months** of annual operation and maintenance expenses. Also funding to cover any restricted reserve obligations.	

OTHER FINANCIAL POLICIES AND RATE-MAKING GUIDELINES

Reserve funding priorities: Disaster Recovery, Capital, Self-Insurance and Deductible, Repair & Replacement, 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.

Attachment IV.B.2.

SAUSALITO-MARIN CITY SANITARY DISTRICT
FY 2024/2025 BUDGET
RESERVE POLICY
Proposed Rev. 4.2.24

RESERVE TYPE	DISASTER RECOVERY	CAPITAL	SELF-INSURANCE AND DEDUCTIBLE	REPAIR AND REPLACEMENT	OPERATING change TO WORKING CAPITAL (change title)	MEDICAL AND PENSION LIABILITIES	TOTAL
PURPOSE	Provide additional capital funding for emergency recovery until long-term funding is arranged from rate increases, loans, debt.	Provide capital for major capital projects in 10 year capital program.	Provide funding for the deductibles of the various insurance policies carried by the District.	Provide capital for renewal and replacement of equipment and appurtenant assets.	Provide working capital for operating expense cash flow during year.	Provide funding for Unfunded Accrued Liabilites (UAL) for Medical (OPEB) & Pension	
				CURRENT RESERVE LEVELS			
FY 2023/24 - FISCAL YEAR ENDING BALANCE (Projected)	$2,500,000	$3,637,400	$100,000	$220,000	$2,535,393	$250,000	$9,242,793
				LONG RANGE TARGET LEVEL GOALS			
TARGET BALANCE	$2,500,000	$3,637,400	$100,000	$220,000	$2,535,393	$1,900,000	$10,892,793
CRITERIA	One-year of average annual 10-year CIP cash funded capital expense.	1.5 times the average annual 10-year CIP expense. Includes debt service payments.	To be adjusted if there are changes to policy coverages or deductibles.	Two-years of average annual renewal replacement costs	**Six-months** of annual operation and maintenance expenses.	The amount is the difference between balances of established trust accounts & acturial UAL	
MINIMUM BALANCE	$1,250,000	$2,137,400	$100,000	$110,000	$845,131	$250,000	$4,442,531
CRITERIA	Minimum funding to aid in disaster recovery.	Funding to cover the 10-year CIP debt service and other restricted reserve obligations.	Minimum funding for the deductible portion for the various insurance policies carried by the District.	One-year of average annual renewal and replacement costs.	**Two months** of annual operation and maintenance expenses. Also funding to cover any restricted reserve obligations.	Minimum funding to reduce the UAL for CalPERS Medical (OPEB) & Pension	

****OTHER RESERVE GUIDELINES**

Reserve funding priorities: Disaster Recovery, Capital, Self-Insurance and Deductible, Repair & Replacement, Operating and Medical & Pension Liabilities
Maintain adequate Capital Reserve to fund CIP, however debt financing may be required for major upgrades.
Maintain R&R Reserve to avoid debt financing of assets needing repair and replacement.
Use moderate rate increases 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 entire reserve amount.

VI. Commitment for Reserves The District has established the following designations for the restricted and unrestricted reserves.

A. Designations for Restricted Reserves

1) **Capacity Charges - (Sewer) Connection Fee:** The CA Government Code requires separate accounting of capacity charges and the application of interest to outstanding balances. The District shall use capacity charges on a first-in-first-out basis to finance cun-ent year capital projects. In the event that the amount collected in any given year exceeds capital project expenses, the District would have to hold the excess funds for future use. Should this situation occur, the excess funds will be placed in this Capacity Charge Reserve. Staff would then recommend these funds as a proposed funding source for the following fiscal year's Capital Improvement Program.

2) Coverage from Debt Service: This is a contractually obligated requirement to cover debt covenant requirements. The District shall maintain adequate reserve funding to maintain its debt service obligations.

The funds are added to this reserve after each debt service contribution from the annual revenue. Funds received in the fiscal period collected cannot be expended in that same fiscal year. Funds remain in this reserve until budgeted; these funds are preferentially used to fund approved projects from the Capital Improvement Program.

The distinction between this restricted reserve and the unrestricted Capital Improvement Program Reserve is in the source of funding. The Reserve for Coverage for Debt Service is considered to be restrictive due to debt covenant requirements that limit its usage to capital expenditures. The Capital Improvement Program Reserve is considered to be unrestrictive because its source is from service charges and/or other general purpose revenues and thus could be available to fund non-Capital expenses.

B. Designations for Unrestricted Reserves

The source of funds for these reserves is from service charges and/or other general purpose revenues. When funds are available for unrestricted reserves, they should be allocated to maintain the reserve requirements in the following preferential order listed below. All allocations to reserves are subject to Board review and approval.

1) **Operating Working Capital Reserve:** Provide sufficient working capital to cover annual operating expenses and cash flow needs during the fiscal year. Provides for a comfortable margin of safety and can be utilized for sewer rate stabilization as required and approved.

2) **Capital Reserve:** Provide adequate funding to support the treatment plant and conveyance system cash funded and debt financed capital projects listed in the District's 10-year CIP. May be utilized to cover restricted reserve debt service obligations.

3) **Renewal and Replacement Reserve:** Provide funding for District on-going cash funded smaller treatment plant and conveyance system renewal and replacement projects on an annual basis. Maintain adequate funding to cover variable year over year project expenses and avoid debt financing of minor facilities.

4) **Disaster Recovery Reserve:** Provide a level of emergency capital for disaster recovery efforts until long-term financing is arranged.

5) **Self-Insurance and Deductible Reserve:** This reserve represents the deductible portion for the various insurance policies carried by the District. The District funds insurance premiums from the operating budget; however the operating budget would not be able to absorb the deductible portion for insurance claims that are filed. The funding level is $100,000 and should be adjusted if there are changes to policy coverages or deductibles.

6) **Medical and Pension Liabilities:** Provide funding for Unfunded Accrued Liabilities (UAL) for Medical (OPEB) & Pension