

# Olivehurst Public Utility District



## Agenda Item Staff Report

**Meeting Date: January 17, 2019**

### Item description/summary:

#### **District Reserve Policy**

A reserve policy's purpose is to ensure sound fiscal management, ensure that the District is able to respond to the challenges of a changing environment and preserve Board discretion in its resource allocation decisions. Without a reserve policy, GASB 54 prescribes the default order in which these amounts are spent (committed, assigned, unassigned). A reserve policy can specify the order in which fund balances are spent when more than one amount is available for a specific purpose.

### Fiscal Analysis:

The proposed draft reserve policy provides for a 2 month cash reserve for operations cash for all departments: Water \$370,000, Sewer \$380,000, Parks \$85,000, Fire \$135,000. Reserves will be classified per GASB 54. A 4 of 5 vote by the Board of Directors is needed to expend accumulated reserve funds.

### Employee Feedback

### Sample Motion:

Motion to approve the District Reserve Policy

Prepared by:

Karin Helvey, Financial Manager

---



## OLIVEHURST PUBLIC UTILITY DISTRICT

### RESERVE POLICY

Effective Date: Revision 0
-------------------------------

#### 1) Purpose

Olivehurst Public Utility District (the District) shall maintain reserve funds in cash and cash equivalents. This policy establishes the level of reserves necessary for maintaining the District's credit worthiness and for adequately providing for:

- Funding infrastructure replacement.
- Economic uncertainties and other financial hardships.
- Loss of significant revenue sources such as property tax receipts or connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.

#### 2) Scope

This policy applies to the General Fund Fire Department, Olivehurst Parks and CSA 66 Parks, Water and Waste Water.

#### 3) References

The Governmental Accounting Standards Board (GASB) Statement 54 Fund Reporting and Governmental Fund Type Definitions requires that the District categorize fund balances according to the following components:

- Nonspendable fund balance (inherently nonspendable)
- Restricted fund balance (externally enforceable limitations on use)
- Committed fund balance (self-imposed limitations on use)
- Assigned fund balance (limitation resulting from intended use)
- Unassigned fund balance (residual net resources).

**The District's reserves follow the requirements of GASB 54.**

#### 4) Policy

### *Operating Reserves*

The minimum amount of operating reserves will equal two months of operating expenses. The maximum amount of operating reserves will equal three months of operating expenses.

### *Capital Reserves*

Capital reserves will be accumulated to fund depreciation, facility and equipment replacement, and infrastructure projects. The minimum amount of capital reserves will equal one year's capital spending. The maximum amount of capital reserves will equal two times the accumulated depreciation balance.

## 5) Procedure for Using Reserve Funds

### *Operating Reserves*

Operating reserves can be used at any time to meet cash flow requirements of District operations. Authority to use the funds will be consistent with the District's Purchasing Policy.

### *Capital Reserves*

The Board of Directors will authorize use of all reserves during the budget process. Capital reserves are also available for unplanned (unbudgeted) capital replacement. Authorization for the use of capital reserves for unplanned capital replacement will be consistent with the District's Purchasing Policy and a 4 of 5 board vote.

## 6) Procedure for Monitoring Reserve Levels

The Financial Manager shall perform a reserve analysis to be submitted to the Board of Directors upon the occurrence of the following events:

Board of Directors' deliberation of the annual budget.

Board of Directors' deliberation of a service charge rate increase.

When a major change in conditions threatens the reserve levels established within this policy.