

SOUTH PLACER MUNICIPAL UTILITY DISTRICT POLICIES

Policy Name:	3130 – RESERVE POLICY		
Approval Authority:	SPMUD BOARD OF DIRECTORS	Adopted:	09/03/15
Resolution No.	15-23, 20-08, 21-14, 23-17	Revised:	06/01/23

PURPOSE

The purpose of this policy is to ensure that the South Placer Municipal Utility District 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 to cover ongoing daily operations as rate revenue is recovered on a quarterly basis.

ii. 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 will be used during these events to ensure funds within the capital improvement reserve are not impacted for the ongoing planned repair and replacement of the sewer system. The source of funding for this reserve shall be from Sewer Service Charges.

The District shall maintain an Emergency Reserve equivalent \$1 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 manner in conformance with State law and drawn down as required by growth related projections. The source of funding for the Capital Improvement Reserve shall be the Local 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, or replacement is needed. 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 has developed Asset Replacement Funding Projections (Nessie Curves) to determine the Capital Replacement and Rehabilitation Fund balance necessary over time. These curves predict that at the current accumulation rate, Fund 400 will not accumulate enough funds to pay for the necessary future replacements. The District shall update funding projections and re-evaluate reserve contributions to Fund 400 no less than every two years.

The District shall maintain a Capital Replacement and Rehabilitation Reserve sufficient to fund the next three years of planned capital taking into account anticipated revenues with an ideal target of five years of planned capital.