

Attachment No. 24

EPASD Reserve Policy



EAST PALO ALTO SANITARY DISTRICT

BOARD OF DIRECTORS

Glenda Savage, President
Joan Sykes-Miessi, Vice President
Bethzabe Yañez, Secretary
Goro Mitchell, Director
Dennis Scherzer, Director

901 Weeks Street
East Palo Alto, CA 94303
Phone: (650) 325-9021
Fax: (650) 325-5173
www.epasd.com

Akin Okupe, M.B.A, P.E., General Manager

RESERVE POLICY

PURPOSE

East Palo Alto Sanitary District shall maintain reserves in the General and Capital Asset Funds. 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.

POLICY

Operating Reserves (General Fund)

The minimum amount of operating reserves will equal 12 months of operating expenses. At the start of a new fiscal year, funds are added to the Reserve to maintain 12 months of budgeted total expenses (excluding depreciation) for that year. The Key Objective for this reserve is to provide for adequate cash flow when the District does not have adequate revenue in the form of sewer service charges.

PERS Liability Reserves

The District has established a Post-Employment Benefit trust program administered by PARS (Public Agency Retirement Services) for the purpose of pre-funding pension liabilities. This

reserve is an irrevocable trust as defined by the IRS and uses mutual fund earnings to accumulate interest that can be used for payment of pension liabilities for OPEB and PERS accumulated Unfunded Pension Liabilities.

Capital Reserves (Capital Asset Fund)

Capital reserves will be accumulated to fund infrastructure projects and will be an integral part of the District's capital plan documented in its Master Plan. A key objective for accumulating capital reserves are to minimize potential external borrowing and interest expense.

The Emergency Capital Reserve will be established to cover cash flow requirements in the event of catastrophic or local disasters. It will be fully funded at a target level of \$2M.

The Equipment Replacement Reserve

The Equipment Replacement Reserve was established to stabilize expenditures for purchases of large equipment and vehicles. This reserve should be initially funded with \$200,000 in FY2020-21. Contributions will be added annually through the budget process based on year over year CPI increases.

The Rate Stabilization Reserve

The Rate Stabilization Reserve will be established in FY2020-21 to build a reserve to stabilize future rate increases. It will be initially funded with \$3M. it will be presented for Board approval through the budget approval process, contributing of \$0.1M as well as unspent balances remaining in Non-Operating Expenses at year end after all the reserve have been fully funded. will be added to the reserve annually.

.

PROCEDURE FOR USING RESERVE FUNDS

Operating Reserves

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

Capital Reserves

The Board of Directors will authorize use of capital 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 Financing Policy and Purchasing Policy and subject to Board approval.

PERS Liability Reserves (Post-Employment Benefit Trust)

The Board of Directors will authorize the use of interest and/or principal towards the District's OPEB and PERS accumulated Unfunded Pension Liabilities. This fund is an irrevocable trust and is strictly for the use of paying the District's pension liabilities. This fund has no requirement to be used in any fiscal year and can be allowed to accumulate to the level desired by the Board to be used at a future date.

PROCEDURE FOR MONITORING RESERVE LEVELS - Monthly

A reserve analysis is submitted to the Board upon the occurrence of the following events:

- Monthly analysis of reserve balances and performance are submitted to the Board of Directors for their review and approval.
- Board of Directors' deliberation of the annual budget;
- Board of Director' deliberation of a service charge rate increase;
- When a major change in conditions threatens the reserve, levels established within this policy

If analysis indicates projected or actual reserve levels falling 10% below or above the levels outlined in this policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level, and or
- An identified course of action to bring reserve levels within the minimum and maximum levels prescribed.