

## **South Tahoe Public Utility District Reserve Policy**

### **PURPOSE**

South Tahoe Public Utility District (the District) shall maintain reserve funds in the Sewer and Water Enterprise 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

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 infrastructure projects and will be an integral part of the District's capital plan documented in its Ten-Year Forecast. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense. 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.

#### Self-Insurance Reserves

The minimum self-insurance reserve will equal \$300,000. The maximum self-insurance reserve will equal the current annual health insurance expense budget.

#### Rate Stabilization Fund

The Sewer and Water Enterprise Funds will maintain a funding level equal to a fixed amount of \$4,000,000; however, the Water Enterprise Fund will incrementally increase year over year and ultimately reach this level of funding in FY 2027-28.

## **PROCEDURE FOR USING RESERVE FUNDS**

### Operating and Self-Insurance Reserves

Operating and self-insurance 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 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 Purchasing Policy.

### Rate Stabilization Fund

The Chief Financial Officer is authorized to use rate stabilization funds to supplement operating revenue as authorized by the Board of Directors.

## **PROCEDURE FOR MONITORING RESERVE LEVELS**

The Chief Financial Officer 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;
- Upon renewal of the self-insurance excess insurance coverage; or,
- When a major change in conditions threatens the reserve levels established within this policy.

If the 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.