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January 27, 2020

Board of Directors
Triunfo Water & Sanitation District
Ventura County, California

APPROVAL OF PROPOSED RESERVE LEVEL POLICY

Summary

As part of the rate study process, the District's reserve policies were evaluated to ensure they meet the District's current and future cashflow needs, provide sufficient fiscal stability as well as the necessary financial resilience. That evaluation generated a recommendation from the rate study consultants, Raftelis, to modify the Capital Improvement and Capital Replacement Reserves Fund (CIP) policy.

The intent of the changes to the CIP Reserves is to provide for a longer funding period (5-years) for CIP projects which will reduce the fluctuation in funding required each year, as thus enhancing rate stability from year to year. The proposed reserve language as well as the existing policy language is presented below for your review consideration:

Proposed:

The District shall establish and maintain funds equal to the 5-year rolling average of the capital improvement projects outlined in the annually updated Five-Year Capital Improvement Plan. The calculation of funds maintained in this category will exclude any funding obtained from outside sources such as loans, grants, or bond funding.

Existing:

The District shall establish and maintain funds to adequately meet the needed cash flow for the following fiscal year's capital improvement projects outlined in the Five-Year Capital Improvement Plan. The calculation of funds maintained in this category will exclude any funding obtained from outside sources such as loans, grants, or bond funding.

Redlined Version:

The District shall establish and maintain funds equal to the 5-year rolling average of the to adequately meet the needed cash flow for the following fiscal year's capital improvement projects outlined in the annually updated Five-Year Capital Improvement Plan. The calculation of funds maintained in this category will exclude any funding obtained from outside sources such as loans, grants, or bond funding.

Please contact me at (805) 658-4646 or email tinarivera@vrzd.com if you have any questions.

Fiscal Impact

No significant fiscal impact is anticipated other than a reduction in fluctuation to service rates.


Recommendation

It is recommended the Board approve the proposed changes to the District's Reserve Level Policy.



ALVERTINA RIVERA - DIRECTOR OF FINANCE

REVIEWED AND APPROVED


Mark Norris - General Manager

Attachment: Proposed Reserve Level Policy

Board of Directors

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Vacant, Director

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2.0 Reserve Level Policy

Revised: 01/27/2020

Reserve Level Policy

PURPOSE

Triunfo Water & Sanitation District (District) is an enterprise public agency, providing sewer, potable water, and reclaimed water to its customers. The District recovers its cost of providing these services through fees and charges. The District requires adequate reserves to ensure the District maintains a prudent level of financial resources to cyclical variations in revenues and expenses and to protect against reducing service to withstand economic downturns, protect against catastrophic events, unforeseen revenue declines, short-term capital improvements, and operating cash flow needs.

POLICY

It is the policy of the District that all funds held in reserve be designated to specific uses, and to take into consideration the minimum level necessary to maintain the District's credit worthiness and adequately provide for operating reserves, future debt or capital obligations, cash flow requirements, and legal requirements. This policy is in conformity with Generally Accepted Accounting Practices (GAAP), Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB) Guidance. Reserve levels will be set as follows:

A. Restricted Reserves

The District will maintain reserves in an amount equal to funds restricted by legal requirements, contractual agreements, and trustee requirements. The District is limited in the means in which it may use restricted cash reserves due to legal requirements and contractual agreements.

1. Debt Service Reserve Funds

Cash is held as a surety that the annual debt payment and interest will be made. Established as prescribed by the bond covenants adopted at the time of the issuance of debt and maintained until the final debt service payment is made or the debt issue is defeased. The funds cannot be used for any other purpose.

2. Capital Reserve Fund

Included in this fund is the connection fee collected from developers to pay for the new facilities necessary to deliver water and wastewater service to newly developed property.

3. Customer Deposits Fund

Monies are held on behalf of District customers as required for their utility account. Deposits on utility accounts are released when refunded to the customer. The balance in this fund will fluctuate depending on the number of utility customer deposits are required.

B. Designated Reserves

The District will have available cash reserve to cover operating shortfalls to be used for both short term cash flow and contingency planning for unforeseen situations such as unexpected increases in costs or declines in revenues, legislative or judicial mandates, new or expanded services or programs, natural disaster emergencies, one-time Board approved non-capital expenditures or capital needs, and interruptions in billing process to customers.

1. Capital Improvement and Capital Replacement Reserves Fund

The District shall establish and maintain fund equal to the 5-year rolling average of the capital improvement projects outlined in the annually updated Five-Year Capital Improvement Plan. The calculation of funds maintained in this category will exclude any funding obtained from outside sources such as loans, grants, or bond funding.

2. Operating Fund

The District will maintain cash in the operating fund at a minimum level equal to three months of its annual operating expenses and a maximum level equal to six months of its annual operating expenses, excluding depreciation. This reserve bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers. The fund will ensure continuity of service regardless of cash flow.

3. Debt Service Reserve Fund

The District shall establish and maintain funds equivalent to one year's debt service obligations. This fund will provide additional security for the payment of annual debt service if rates and other funds are insufficient or not available.

4. Rate Stabilization

The District will maintain cash in the rate stabilization fund at a minimum level equal to three months of its annual operating revenues and a maximum level equal to six months of its annual operating revenues, excluding connection fees. The fund will be used during temporary revenue shortfalls to avoid reducing service levels or raising fees.

GUIDELINES

Finance shall perform a reserve analysis to be submitted to the Board of Directors as follows:

- Board of Directors' deliberation of the annual budget; and
- When a major change in conditions threatens the reserve levels established within this policy.

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