

2.0 RESERVE AND FUND BALANCE POLICIES

2.1 Reviewed annually

Ross Valley Sanitary District maintains specific reserves and fund balances that are appropriate to the needs of the District. Targeted reserve and fund balance levels are established and reviewed annually as part of the budget process. The use of reserves and fund balances for operational activities is explained in the annual budget documents; such explanation describes the circumstances for such action and its expected future impact.

2.2 Definitions

Fund Balances refer to levels of cash on hand at a given point in time, which are to be available in order to meet cash flow (liquidity) requirements of the annual budget. Fund Balance targets are calculated or estimated, at minimum, for each fiscal year end (June 30th).

Reserves are funds that are created to serve defined purposes, usually to mitigate the risk of uncertainty in the District's ability to provide continuity of services in a changing environment. Conditions for the use of reserve funds are defined within each established reserve.

2.3 Operations and Maintenance fund balance

Ross Valley Sanitary District maintains cash and investments necessary to meet the liquidity needs for the District's day-to-day operations. Furthermore, the District will maintain unrestricted cash and investments as required by any debt covenants.

The target fund balance is designed to cover the cash flow (liquidity) requirements of day-to-day operations between the April and December revenue receipts. Liquidity needs are calculated as follows: on June 30th of each year the District will maintain a level of cash and investments, less those amounts held in reserve by a fiscal agent, in an amount at least equal to anticipated operating expenses budgeted between July 1 and December 31. This target fund balance is exclusive of all other reserve targets.

Primary funding source: Sewer Service Charges

2.4 Capital Improvement and Replacement fund balance and reserves

Ross Valley Sanitary District maintains both a fund balance and a reserve for Capital Improvement and Replacement (Capital Budget). The two work in tandem to satisfy the annual cash flow requirements (fund balance) and to mitigate risks inherent in Capital Planning (reserve).

The District maintains a Capital Improvement and Replacement fund balance sufficient to meet the cash flow requirements of the annual Capital Budget. The target for this fund balance, as of June 30 each year, will be at least equal to the anticipated capital expenditures budgeted between July 1, and December 31 plus the annual debt service payments.

The Capital Improvement and Replacement reserve is intended to mitigate risk factors related to the Capital Budget, for both revenue and expenses, and ensure continuity in executing the Capital Improvement Plan. The revenue risk factor is the District's use of Ad Valorem Tax as a significant source of funding for the Capital Budget. This revenue is not within the District's direct control, therefore its continuity is subject to risk of future reductions based on State laws and policies. The expense risk factors include the timing of capital projects and related major payments, and unforeseen conditions that impact actual versus budgeted costs during implementation of the project.

The target reserve balance is the average annual capital expenditures forecasted in the current 5-Year or 10-Year CIP, less the amount held in the Capital Improvement and Replacement fund balance. This target reserve balance is exclusive of all other reserve targets.

Primary funding source: Ad Valorem Property Tax, Connection Fees, Sewer Service Charges

Secondary funding source: Debt Financing

2.5 Emergency reserves

Ross Valley Sanitary District maintains an emergency reserve for use during operational or financial emergencies. Emergencies constitute significant unforeseen events that have a dramatic and immediate impact on the operations, assets or financial condition of the District. In the event funds from this reserve are used, a plan to replenish the funds used during a fiscal year will be developed and approved through the budgeting process in the following fiscal year. The target amount of the reserve should be calculated to be at least equal to 10% of the budgeted annual operating expenses, but not less than \$2 million. This target balance is exclusive of all other reserve targets.

Primary Funding Source: Sewer Service Charges

2.6 Other Post-Employment Benefits reserves

Ross Valley Sanitary District maintains an Other Post-Employment Benefits (OPEB) reserve to fund future payments of retiree post-employment health benefits. Annual contributions to this reserve are based on the most recent actuarial analysis. This is a restricted reserve and may not be utilized for any other purpose. This target balance is exclusive of all other reserve targets.

2.7 Funding of reserves and fund balances

Ross Valley Sanitary District makes every attempt to maintain target levels in all reserves and fund balances. When reserves or fund balances are depleted, a plan for replenishment will be developed and included in the next fiscal year's budget.

