

POLICY TITLE: WATER DEPARTMENT FINANCIAL RESERVE POLICY

POLICY STATEMENT:

On June 14, 2016, the City Council approved the Water Department's Long Range Financial Plan (LRFP). The LRFP provides the justification and framework for water reserve funds as described in this policy. It is the policy of the City of Santa Cruz to establish and maintain reserve funds for the Water Enterprise Fund as one part of a comprehensive program of prudent financial discipline designed to ensure a stable operating environment and supports a strong credit rating which supports lower borrowing costs when issuing bonds.

The Water Department will develop and recommend to the City Council for its approval a Long Range Financial Plan that provides the policy and fiscal management foundation for its financial reserves. At a minimum, this plan will be comprehensively reviewed and updated as needed every five years.

The Water Department will report to the City Council on Reserve Fund levels as part of its annual budget presentation to the City Council. Should the Department believe changes to this reserve policy are needed; recommendations will be made to the Council to protect the financial stability and sustainability of the Water Enterprise Funds.

I. RESERVE FUND CATEGORIES

The Water Department shall establish and maintain the reserve funds described below and as summarized in Exhibit A.

1. Rate Stabilization Fund (Fund 713)

- a) Purpose: The Water Rate Stabilization Fund reserve is intended to provide a buffer for the financial impacts to the Department's Operating and Maintenance Budget that may result from uncontrollable factors such as cooler than normal temperatures, wet weather events, an economic downturn, or greater than projected customer conservation behaviors or activities. This fund can also be used to provide the cash necessary to meet required minimum debt service coverage levels. Allocation of funds from the Water Rate Stabilization Fund to meet minimum debt service coverage levels may be made without the required City Council approval included in Section III. Use of Funds provision of this policy.
- b) Target Fund Level: The target funding level of the Rate Stabilization Reserve Fund is \$10 million. Beginning with the planned July1, 2017 rate adjustment, a \$1.00 surcharge per unit of water consumption (100 cubic feet or CCF) would be applied toward the goal of increasing to amount of the Rate Stabilization Reserve to a target fund level of \$10 million.

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2. 180-Days Cash Reserve

- a) **Purpose:** The purpose of the 180-Days of Operating Reserve is to provide financial stability, including supporting the utility in addressing cash flow issues that are an inherent result of the seasonality of water revenues. Maintaining a strong cash reserve also helps maintain the water system's bond rating and ensure the lowest possible borrowing costs. The Water Department has chosen to meet the 180 days cash reserve requirement by adding together the annual ending fund balance from the Water Operating Fund (Fund 711) and 90-Days Cash Reserve Fund (Fund 716). Compliance with the Reserve Policy requirement for 180-days cash of operating cash will be determined annually using the combination of fiscal year ending fund balances for both funds (Fund 711) and (Fund 716).
- b) **Target Fund Level:** Funds from Operating Fund (Fund 711) and 90-Day Cash Reserve Fund (Fund 716) combined goal is to achieve an ongoing 180-days cash balance. The 180-days cash balance would be indexed annually and equal to 6 months of the operating budget (see footnote). The target fund level will be reviewed and a revised target level will be established annually. The revised reserve level will be incorporated into the Department's annual budget, setting the funding level goal for the next fiscal year.

II. EMERGENCY RESERVE FUND

1. **Purpose:** Funds from the Emergency Reserve Fund (Fund 717) are intended to provide resources necessary for any emergency repairs required to ensure continued water service to customers and service areas as the result of events which are impossible to anticipate or budget for. The Emergency Reserve Fund shall be used in situations such as natural disasters or other infrastructure-related emergencies that result from major storm events, earthquakes, or other unforeseeable cause of damage to or disruption of the system that require financial resources above those that would normally be available to respond to such a situation.
2. **Target Fund Level:** The target amount for the Emergency Reserve Fund is \$3.1 million. The target fund level will be reviewed annually for sufficiency. The Emergency Reserve Fund target level may be reviewed in the future for potential indexing to the operating budget.

III. USE OF RESERVE FUNDS

The use of reserve funds will follow established policy requiring City Council approval for the transfer of funds and increase in appropriations.

AUTHORIZATION: Resolution No. NS-24,013 and  
Council Policy Manual Update of November 17, 1998  
Updated by Resolution No. NS-29,595, November 12, 2019