

## **Santa Rosa Regional Resources Authority Reserve Policy**

### **Purpose**

Establishment of proper reserves is an integral part of the fiscal health of the Santa Rosa Regional Resources Authority (SRRRA). Specifically, this policy is set forth to:

1. Define Reserve Funds, their funding sources and allowable uses; and
2. Establish Reserve Fund Targets that -
  - a. Provide sufficient funds on hand with the SRRRA to ensure the payment of operating, capital improvement, and debt service obligations on time; and
  - b. Reflect a pass-through financial model where the member agencies individually hold those reserves not necessary for the immediate liquidity needs set forth in this policy.
3. Establish the allocation basis for how much each member agency contributes to fund reserves to meet reserve fund targets; and
4. Assign authority to the Administrator to invoice required contributions and advances from the member agencies to meet the Reserve Fund Targets as established in this policy.

### **Operating Reserve Fund**

*Purpose:* To establish a permanent reserve that provides sufficient liquidity as working capital to fund operating expenses of the SRRRA.

*Reserve Target:* This reserve target is set on the basis of providing for a minimum of one month of budgeted operating expenses and shall generally be calculated at 8% (1 month / 12 months) of the annual operating budget. It is initially established at a minimum amount of \$425,000 and shall be updated every year in the budget review and approval process, and may be set at amounts higher than this as approved by the Board of Directors in consideration of special circumstances at that time. Amounts in excess of this reserve target will be included in the annual budget review process for consideration to lower overall member agency operating contributions for the year being budgeted.

*Source of Funds:* Contributions shall be assessed to each member agency based on its proportion of total operating expenses as approved in the budget for the fiscal year applicable to when the contribution is required. Any necessary replenishment of the Operating Fund Reserve is to be determined and included in the Operating Budget for the following fiscal year, except as otherwise necessary and approved by the Board. A request for an advance of the member agencies' annual operating expense contributions may be necessary during the year if the Administrator determines that such an advance is necessary to meet payment obligations of the SRRRA.

*Allowable Uses:* Funds from this reserve may be used for payment of operating expenses and may also be used to temporarily advance capital costs or debt service costs if reserves established for such purposes are insufficient to meet payment obligations and repayment is anticipated within six (6) months.

### **Debt Service Reserve Fund**

*Purpose:* To establish a permanent reserve that mitigates risk of non-payment on SRRRA's debt service obligations due to temporary delays in payment from member agencies, as well as meet applicable debt reserve legal requirements.

Reserve Target: This reserve target is established at the higher amount of either having sufficient funds on hand to pay the highest single debt service payment of any single member agency should a delay in payment occur, or of the minimum amount of any legal requirements. It is initially established at a minimum amount of \$2,250,000 and shall be reviewed annually in the budget review process to determine if new or maturing debt requires the amount to be recalculated. Such a revision to the amount of this reserve target will be brought to the SRRRA Board of Directors for approval.

Source of Funds: Contributions shall be assessed to each member agency based on the percentage of its share of the aggregate amount of long-term debt considered under this reserve target.

Allowable Uses: Funds from this reserve may be used to advance a payment on debt service should payment on debt service contributions by member agency(ies) not be made timely. If funds are used for such a purpose, they shall be reimbursed by the member agency(s) that necessitated the advance. In the event the reserve target can be lowered or eliminated, a proportional amount equal to that contributed to fund this reserve by each member agency will be credited to its account. Use of these funds may be further restricted by legal covenants relating to debt transactions as approved by the Board.

#### **Capital Project Reserve Fund – Working Capital**

Purpose: To establish a temporary reserve that provides sufficient working capital for authorized capital expenditures.

Reserve Target: A temporary working capital reserve is established by invoicing member agencies on an advanced quarterly basis based on projected funding needs for CIP for that quarter. Total project budgets are approved by the Board of Directors individually but are typically approved as a package in the annual CIP budget process. Amounts estimated to be needed for funding in a fiscal year are included in the non-operating budget. Due to uncertainty associated with such projections, these advances are reconciled on a member agency basis semi-annually and the difference between the amounts collected and the actual capital expenses incurred will be either charged or credited to the respective member agencies.

Additional advances in the interim of the quarterly invoices may be requested if the Administrator determines that funds in excess of those on hand are required to meet capital payment obligations. This reserve fund would be typically used to cover funds for projects that will be reimbursed by external sources, such as with State Revolving Fund (SRF) loans or grants.

Source of Funds: Contributions shall be assessed to each member agency based on the capital cost sharing allocation as set forth in the JPA Agreement, and can be up to the aggregate amount of the approved budgets for the applicable CIP projects. Advanced cash to be reimbursed by external sources (loans, grants, etc.) will be credited back to the respective member agencies once the reimbursement amounts are received from the external source.

Allowable Uses: Funds from this reserve may be used for payment of capital expenses and may also be used to temporarily advance debt service costs if funds in the Debt Service Reserve are insufficient where repayment from the member agency is anticipated within six (6) months.

#### **Capital Project Reserve Fund – Rate Stabilization**

Purpose: To facilitate a more level collection and utilization of funds from member agency contributions for compliance with minimum debt service coverage requirements.

Reserve Target: A temporary rate stabilization reserve shall be established at any time where total revenues are not sufficient to meet minimum debt service coverage requirements. The reserve target shall be set at an amount equal to achieve the minimum debt service coverage requirement during any applicable period, and such additional amounts as determined by the Board of Directors. Any funds placed in the reserve may be considered for future use to draw down upon at the discretion of each member agency for balances accounted to it, as long as minimum debt service coverage is maintained in that period.

Source of Funds: Contributions shall be assessed to each member agency based on the percentage of its share of the aggregate amount of long-term debt considered under the Debt Service Reserve Fund.

Allowable Uses: Funds from this reserve may be used for payment of capital expenses and may also be used to temporarily advance costs associated with the other reserve funds, if funds in the other reserves are insufficient and repayment of the advance is anticipated within six (6) months.

### **Accounting/Record Keeping**

Each reserve fund shall be accounted for separately on the accounting records of SRRRA, including recording in sufficient detail to delineate the sources of funds on a per member agency basis, in addition to tracking of the uses of such reserves. Advances of cash from member agencies will be tracked separately as such to allow proper crediting to the total contributions due from each agency. Reporting to the Board of Directors on the status of the reserves shall be made no less frequently than annually, and will typically be included in the analysis provided in the budget review and approval process.