



# Reserve Fund Policy Discussion

Board Meeting 11/06/18



# Background

- F&A Committee reviewed the draft policy on 10/22/18
- As part of the merger, unified policies are continuing to be developed
- Last update to Reserve Policy
  - Santa Clarita Water Division – July 2017
  - Castaic Lake Water Agency – January 2016
  - Valencia Water Company – January 2018
  - Newhall County Water District – February 2014
- Establishing and maintaining reserves is prudent financial management
- Implementing reserve policies has favorable results with the credit rating agencies

## Reserve Fund Policy

- This Reserve Policy has been revised to re-state and conform the various legacy policies of the four divisions of SCV Water
- The legacy policies were incorporated in the FY 2018/19 budget based on the legacy reserve target levels
- The purpose of the Reserve Fund Policy is to ensure the Agency's financial stability and to have sufficient funding available to meet its operating, capital and debt service cost obligations
- Maintains a level of reserves necessary for maintaining the Agency's credit-worthiness and ratings

## Use of Reserves

- Cash flow requirements and working capital
- Economic uncertainties and other financial hardships
- Infrastructure replacements
- Emergency repairs
- Local disasters, natural disasters or catastrophic events
- Loss of significant revenue due to variation in water sales
- Unfunded mandates including costly regulatory requirements

# Types of Reserves

- Capital Improvement and Replacement Funds
- Emergency, or Contingency Reserves
- Capital Reserves
- Operating Reserves
- Revenue Rate Stabilization Reserve
- Water Supply Reliability Reserve

## Funding of Reserves

- The monies to fund the reserves should come from revenues of the regional and retail operations after operating expenses, including debt service are met

## Funding Alternative

- Line of Credit
  - Disadvantage – Cost
  - \$150,000-\$175,000 (estimated) annual fee for \$50,000,000

# Target Levels

<b>TYPE OF RESERVE</b>	<b>REGIONAL</b>	<b>NWD</b>	<b>SCWD</b>	<b>VWD</b>
<b>Capital Improvement &amp; Replacement</b>	Current budget pay-go projects	Current budget pay-go projects	Current budget pay-go projects	Current budget pay-go projects
<b>Emergency/Disaster</b>	Equal to 365 days of operating expenditures	2% of net capital assets	2% of net capital assets	2% of net capital assets
<b>Capital Reserve</b>	3-YR average of annual depreciation	3-YR average of annual depreciation	3-YR average of annual depreciation	3-YR average of annual depreciation
<b>Operating</b>	25% of operating expenses plus one-year annual debt service less any restricted DSRF	25% of operating expenses plus 6 months of annual debt service	25% of operating expenses plus 6 months of annual debt service	25% of operating expenses plus 6 months of annual debt service
<b>Revenue Rate Stabilization</b>	15% of operating revenue	10% of operating revenue	10% of operating revenue	10% of operating revenue
<b>Water Supply Reliability Reserve</b>	Cost to produce 5,000-acre feet from banking programs	NA	NA	NA

# Regional Target Levels

<b>TYPE OF RESERVE</b>	<b>FY 2019 Estimated Balance</b>	<b>FY 2019 Target Balance</b>	<b>% of Target</b>
<b>Capital Improvement &amp; Replacement</b>	\$10,799,500	\$10,399,500	104%
<b>Emergency/Disaster</b>	29,273,400	26,140,200	112%
<b>Capital Reserve</b>	3,204,700	17,267,793	19%
<b>Operating</b>	26,052,500	24,789,050	105%
<b>Revenue Rate Stabilization</b>	0	3,976,043	0%
<b>Water Supply Reliability Reserve</b>	3,000,000	3,000,000	100%
<b>TOTAL</b>	<b>\$72,330,100</b>	<b>\$85,572,586</b>	<b>85%</b>
<b>Days Cash Ratio</b>	<b>1,010</b>	<b>1,195</b>	



# NWD Target Levels

<b>TYPE OF RESERVE</b>	<b>FY 2019 Estimated Balance</b>	<b>FY 2019 Target Balance</b>	<b>% of Target</b>
<b>Capital Improvement &amp; Replacement</b>	\$2,560,262	\$2,937,000	87%
<b>Emergency/Disaster</b>	1,500,000	1,646,037	91%
<b>Capital Reserve</b>	0	2,987,406	0%
<b>Operating</b>	623,723	2,634,209	24%
<b>Revenue Rate Stabilization</b>	1,566,625	1,274,737	123%
<b>TOTAL</b>	<b>\$6,250,610</b>	<b>\$11,479,388</b>	<b>54%</b>
<b>Days Cash Ratio</b>	<b>244</b>	<b>449</b>	

# SCWD Target Levels

<b>TYPE OF RESERVE</b>	<b>FY 2019 Estimated Balance</b>	<b>FY 2019 Target Balance</b>	<b>% of Target</b>
<b>Capital Improvement &amp; Replacement</b>	\$9,535,700	\$9,535,700	100%
<b>Emergency/Disaster</b>	2,200,000	2,255,600	98%
<b>Capital Reserve</b>	3,221,090	4,660,138	69%
<b>Operating</b>	8,928,000	9,532,725	94%
<b>Revenue Rate Stabilization</b>	5,458,365	3,595,590	152%
<b>TOTAL</b>	<b>\$29,343,155</b>	<b>\$29,579,753</b>	<b>99%</b>
<b>Days Cash Ratio</b>	<b>385</b>	<b>388</b>	

## VWD Target Levels\*

<b>TYPE OF RESERVE</b>	<b>FY 2019 Estimated Balance</b>	<b>FY 2019 Target Balance</b>	<b>% of Target</b>
<b>Capital Improvement &amp; Replacement</b>	333,000	\$3,137,000	11%
<b>Emergency/Disaster</b>	141,723	1,942,840	7%
<b>Capital Reserve</b>	0	2,739,469	0%
<b>Operating</b>	439,885	7,979,116	6%
<b>Revenue Rate Stabilization</b>	424,369	3,335,272	13%
<b>TOTAL</b>	<b>\$1,338,977</b>	<b>\$19,133,696</b>	<b>7%</b>
<b>Days Cash Ratio</b>	<b>24</b>	<b>341</b>	

\*Prior to becoming a public water utility, Valencia Water Company did not carry significant reserves. The most recent rate case for Valencia Water Division includes provisions to gradually build reserve levels over the next 10 years.

# Total Target Levels

<b>TYPE OF RESERVE</b>	<b>FY 2019 Estimated Balance</b>	<b>FY 2019 Target Balance</b>	<b>% of Target</b>
<b>Capital Improvement &amp; Replacement</b>	\$23,228,462	\$26,009,200	89%
<b>Emergency/Disaster</b>	33,115,123	31,984,677	104%
<b>Capital Reserve</b>	6,425,790	27,654,806	23%
<b>Operating</b>	36,044,108	44,935,099	80%
<b>Revenue Rate Stabilization</b>	7,449,359	12,181,641	61%
<b>Water Supply Reliability Reserve</b>	3,000,000	3,000,000	100%
<b>TOTAL</b>	<b>\$109,262,842</b>	<b>\$145,765,423</b>	<b>74%</b>



# Questions

