



OLYMPIC VALLEY PUBLIC SERVICE DISTRICT



EXHIBIT F-5
4 Pages

FINANCIAL RESERVES POLICY – ANNUAL REVIEW

DATE: October 31, 2023
TO: District Board Members
FROM: Danielle Mueller, Finance & Administration Manager
SUBJECT: Financial Reserves Policy – Annual Review

BACKGROUND: The purpose of a Financial Reserves Policy is to ensure the stability of the District’s mission, services, employment, and ongoing operations. The policy also defines and sets goals for reserve funds, clearly describes authorization for using reserves, and outlines requirements for reporting and monitoring. Without a policy and procedure, reserve funds tend to be gradually spent over time and then unavailable the next time funds are needed.

The financial reserve policy intends to describe and document the purpose, goals, and mechanics for maintaining and using reserve funds. To accomplish this, the reserve policy needs to address five areas:

1. Purpose of building and maintaining reserves.
2. Definitions of the types of reserves, intended use, and calculation of target amounts.
3. Assignment of authority for making use of each type of reserve fund, which may include delegation of some authority to staff leaders.
4. Responsibilities for reporting reserve fund amounts and use of reserve funds.
5. Any specific policies, if needed, about the investment of reserve funds.

DISCUSSION: OVPSD staff compiled the attached Financial Reserves Policy which includes Reserves for Operating, Capital Replacement, and Rate Stabilization.

The process to determine whether minimum reserve balances are separately and independently met for Fire, Water, Sewer, and Garbage is to evaluate the balances in the Fixed Asset Replacement Funds (FARFs) for each of these four services provided by the District. The minimum balances for all three types of financial reserves (e.g., Operating, Capital Replacement, and Rate Stabilization) are summed for each of the four services as applicable to evaluate if minimum

balances are available. The policy describes a process to be pursued if the minimum balance is unavailable.

Analyses conducted using information for the past three fiscal years concluded that for every year, the reserve policy has been met.

This Financial Reserve Policy is subject to change. However, no changes are recommended for now as this policy is most appropriate for current operations.

ALTERNATIVES: 1. No action; keep the Financial Reserves Policy as is.
2. Modify the Financial Reserves Policy.

FISCAL/RESOURCE IMPACTS: Our financial reserve policy establishes a protocol for maintaining a minimum balance in our reserve accounts. By setting our priorities in this policy, we ensure long-term, stable, and predictable account balances of public funds. Without this policy, we are susceptible to making spending decisions outside the District's means.

RECOMMENDATION: No changes are proposed; therefore, keep the *Financial Reserves Policy* as is.

ATTACHMENTS: Financial Reserves Policy (2 pages)

DATE PREPARED: October 6, 2023

Policy 2020 Financial Reserves – General

PURPOSE

Olympic Valley Public Service District (District) shall maintain reserve funds in the Sewer, Water, Fire and Garbage Fixed Asset Replacement Funds, or FARFs. This policy establishes the level of reserves necessary for maintaining the District's credit worthiness and for adequately providing for:

- Funding infrastructure replacement.
- Economic uncertainties and other financial hardships.
- Loss of significant revenue sources such as property tax receipts or connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.

POLICY

Operating Reserves

The minimum amount of operating reserves will equal two months of operating expenses.

Capital Replacement Reserves

Capital replacement reserves will be accumulated to fund infrastructure replacement projects and will be an integral part of the District's 100-year rolling capital replacement plan. A key objective for accumulating financial reserves is to minimize external borrowing, interest expense, and sharp rate hikes. The amount of funding to the FARFs will be determined annually during the budget cycle and will be based on Capital Replacement Projects planned in the next 100 years. The District strives to be fully funded as projects are completed and to maintain a minimum amount of capital replacement reserves equal to a five-year rolling average of capital replacement spending.

Rate Stabilization Reserves

The Sewer, Water, and Garbage FARFs will each maintain a minimum reserve equal to one year's sewer, water, and garbage debt obligations, respectively. If there is a year where revenues will be less than budget, at a minimum the District needs to cover its debt obligation.

PROCEDURE FOR USING RESERVE FUNDS

Operating Reserves

Operating reserves can be used at any time to meet cash flow requirements of District operations. Authority to use the funds will be consistent with the District's Purchasing Policy.

Capital Replacement Reserves

The Board of Directors will authorize use of capital replacement reserves during the budget process. Capital replacement reserves are also available for unplanned (unbudgeted) capital replacements. Authorization for the use of capital replacement reserves for unplanned capital replacements will be consistent with the District's Purchasing Policy.

Rate Stabilization Reserves

The General Manager and Finance and Administration Manager are authorized to use rate stabilization funds to supplement operating revenue when:

- Total revenue in the Sewer, Water or Garbage FARFs is projected to be five percent or more below the annual budgeted revenue for each of the three services, respectively.

PROCEDURE FOR MONITORING RESERVE LEVELS

The Finance and Administration Manager shall perform reserve analyses to be submitted to the Board of Directors upon the occurrence of the following events:

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

If the analyses indicate projected or actual reserve levels falling 10% below the levels outlined in this policy, at least one of the following actions shall be included with the analyses:

- An explanation of why the reserve levels are not at the targeted level, and/ or
- An identified course of action to bring reserve levels within the minimum levels prescribed.

(Adopted 01-26-16; Revised 10-29-19; Revised 05-25-21; Revised 06-28-22)