Policy 2020 Financial Reserves – General

PURPOSE

Olympic Valley Public Service District (District) shall maintain reserve funds in the Sewer, Water, Fire and Garbage Reserve Funds. 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 rolling capital replacement plan.

The District will maintain capital replacement reserves at a level that supports the timely replacement of infrastructure and equipment, provides financial flexibility, and promotes long-term financial sustainability. The District recognizes that capital projects may be funded through a combination of accumulated reserves, current revenues, grants, and external financing, as appropriate.

The amount of annual funding allocated to capital replacement reserves will be determined during the budget process and will consider the District's 10-year capital replacement plan, anticipated project costs and timing, available financial resources, operating needs, and the potential use of external financing.

The District will establish and periodically evaluate a target level for capital replacement reserves based on projected capital expenditures. A five-year rolling average of capital replacement spending may be used as a planning benchmark, but will not be the sole determinant of the appropriate reserve level.

Rate Stabilization Reserves

The Sewer, Water, and Garbage reserves 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 Procurement 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 Procurement Policy.

Rate Stabilization Reserves
The General Manager and Chief Financial Officer (CFO) are authorized to use rate stabilization funds to supplement operating revenue when:

- Total revenue in the Sewer, Water or Garbage reserves 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 CFO 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; Reviewed 05-25-21; Reviewed 06-28-22, Reviewed 10-31-23, Reviewed 01-28-25, Reviewed 09-30-25, Revised 10-27-26)