



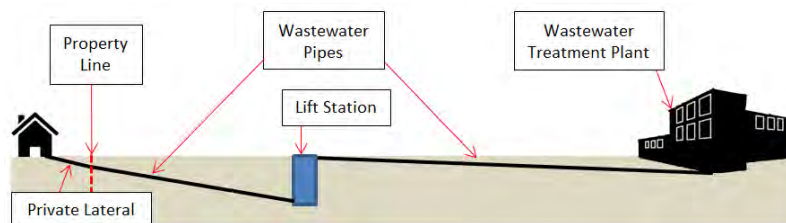
Sewer Fund Reserve Policy

Public Works Department

Finance Committee
October 12, 2016

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BACKGROUND



Over 800 miles of public sewer pipelines

414 miles of sewer laterals (public and private)

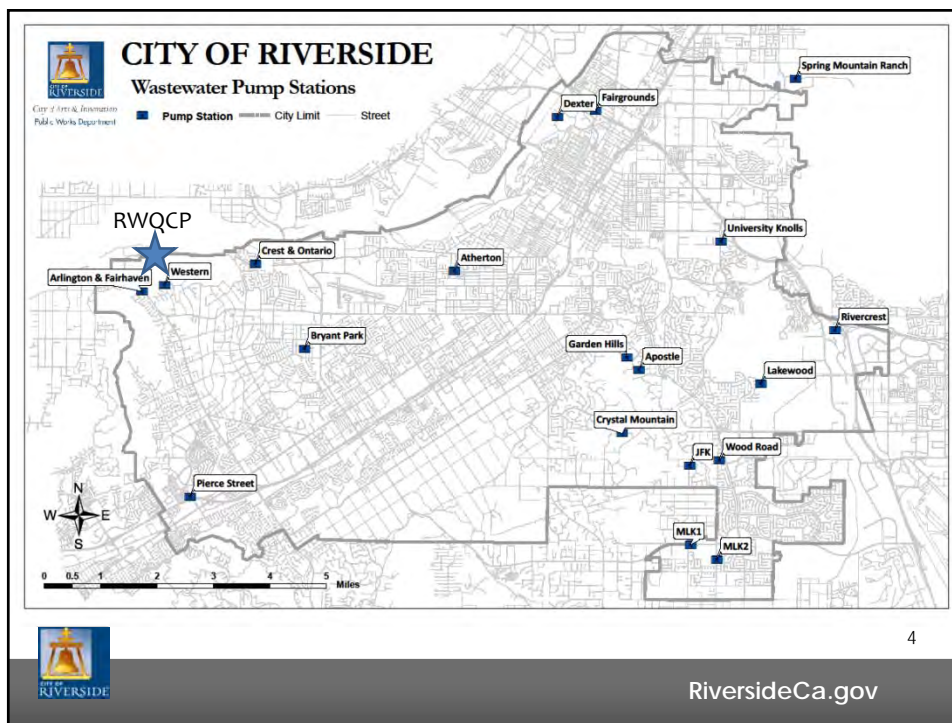
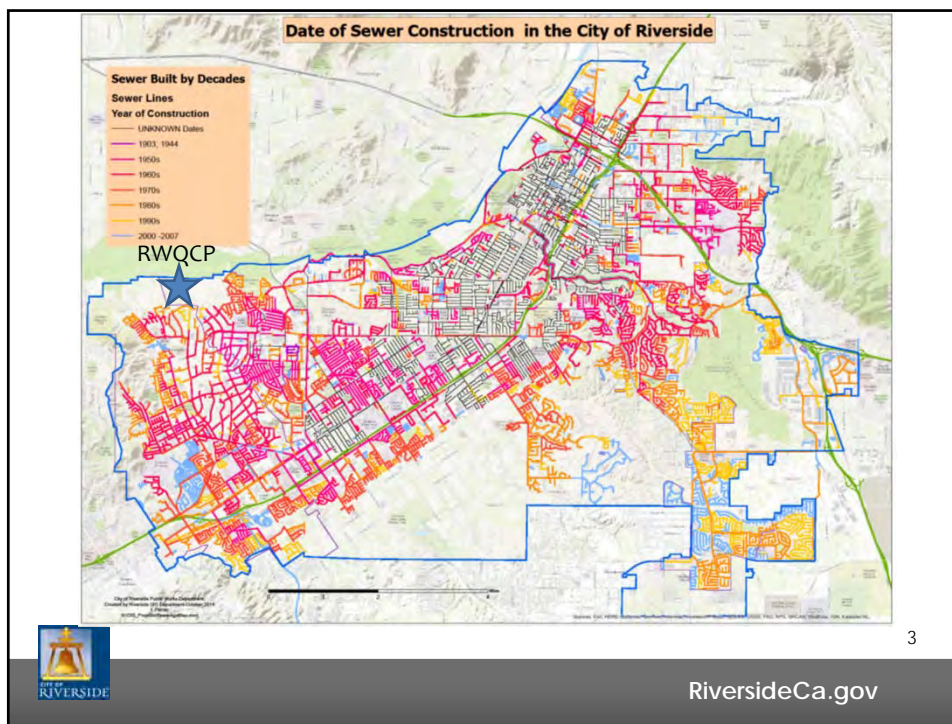
46 million gallons per day of wastewater transported

19 lift stations



2

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POLICY BACKGROUND

The Sewer Enterprise Fund Cash Reserve Policy (Policy) is designed to establish guidelines to ensure the fiscal stability of the Sewer Enterprise Fund & provide guidance to staff in the management of the Wastewater Division's finances.



5

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IMPORTANCE OF A RESERVE POLICY

Strong, transparent financial policies help to:

- Maintain financial health
- Maintain stable rates for customers
- Fund unanticipated cost contingencies
- Ensure funds exist for system improvements
- Ensure the timely payment of bills
- Act as a significant positive credit factor in bond ratings



6

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POLICY DEVELOPMENT

- Reserve Policy can be designed with components that add to form the total reserve target – consistent with recently approved RPU Water Fund
 - Operating Capital
 - Debt Service
 - Capital Construction
 - Capital Emergency
 - Heavy Equipment Replacement
- Policy to be written by staff & included with the Sewer Fund report for approval
- Increasing reserves could lead to a more favorable bond rating – Currently rated at A+ & upgrade to AA is a recommended goal



7

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RESERVES

(UNRESTRICTED-UNDESIGNATED)

The Policy sets minimum and target levels for the Unrestricted - Undesignated Reserves that:

- May be used for any lawful purpose; and,
- Have not been designated for specific capital and operating purposes.



8

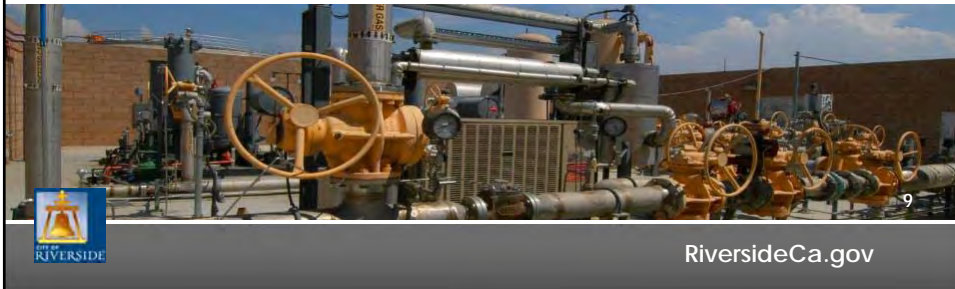
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GENERAL PROVISIONS

Reserve allocations are consistent with industry standards for similar wastewater utilities.

Each component is sized at less than the maximum possible exposure for each one, because it is unlikely all of the risks would materialize simultaneously.

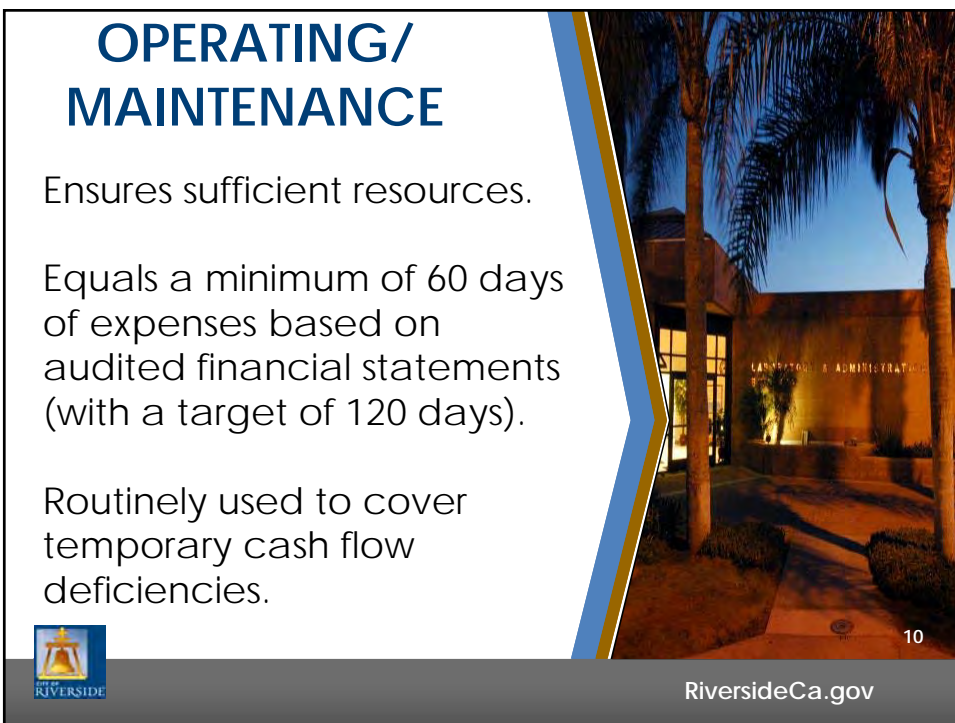


OPERATING/ MAINTENANCE

Ensures sufficient resources.

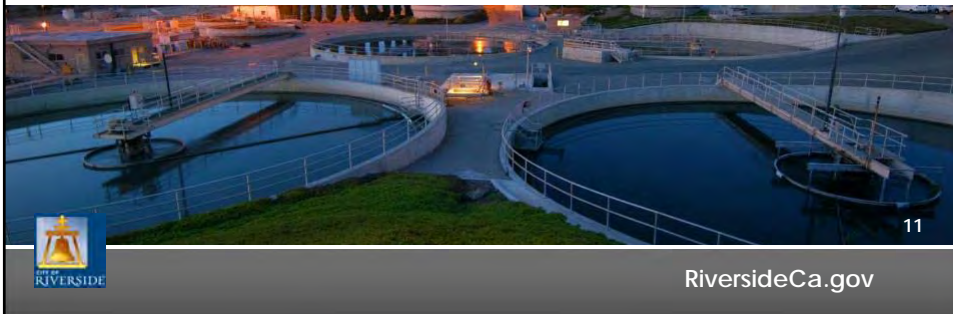
Equals a minimum of 60 days of expenses based on audited financial statements (with a target of 120 days).

Routinely used to cover temporary cash flow deficiencies.



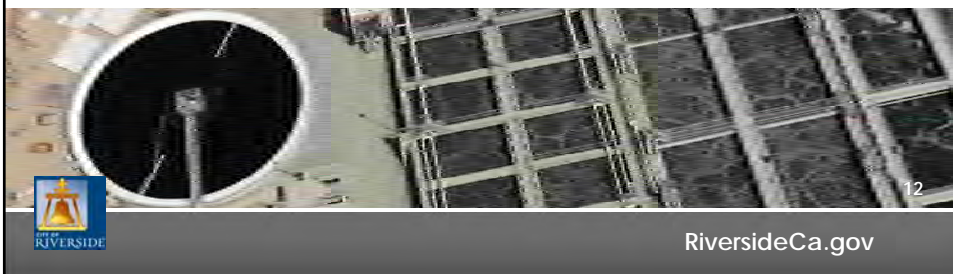
DEBT SERVICE

The Debt Service component is intended to prevent an event where the Wastewater Division would be unable to pay its debt service obligations during emergencies, or extreme market disruptions.



EMERGENCY CAPITAL

Ensures the availability of funds to repair system after an emergency or natural disaster such as a flood or an earthquake as approved by City Council.





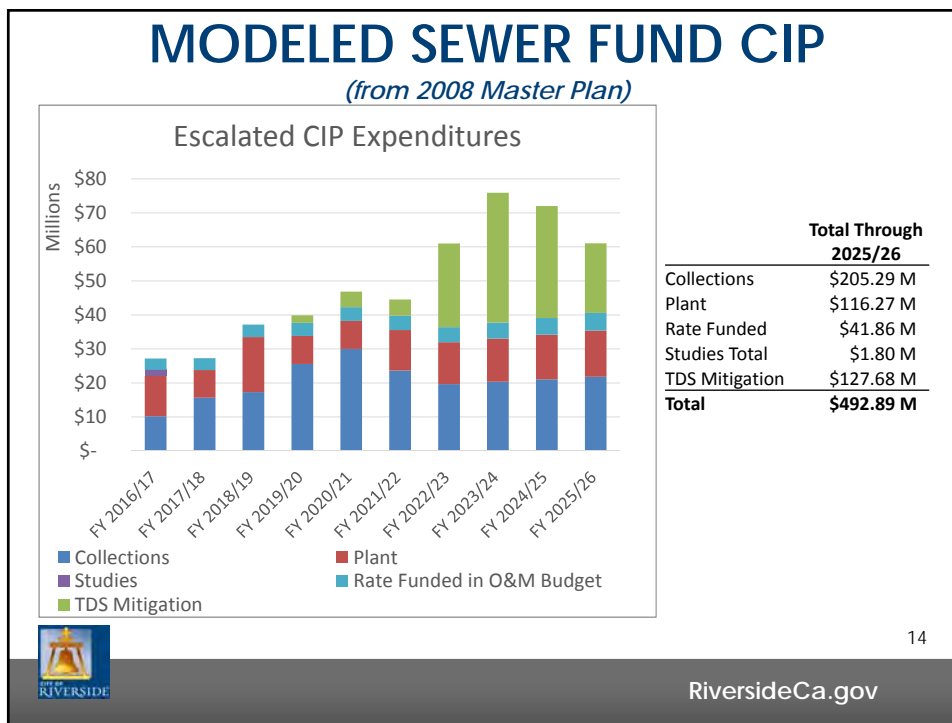
CAPITAL CONSTRUCTION

Provides funds for construction that will be reimbursed by bonds or other sources.

May be used to fund capital expenditures during the year as approved by the City Council.



13
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HEAVY EQUIPMENT REPLACEMENT

Establishes a sinking fund to pay for the replacement of mobile heavy equipment as fleet ages and has reached its anticipated service life.



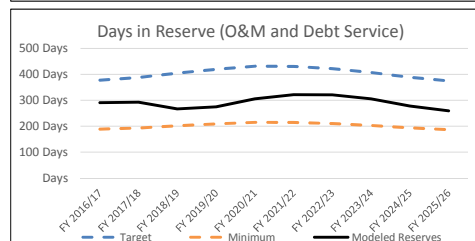
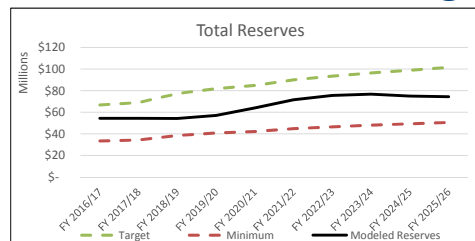
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15



RESERVE TARGET & MINIMUM LEVELS (Anticipated to Maintain A+ Bond Rating)

| Operating Capital | Target | Minimum |
|---|---------------------|---------------------|
| O&M Costs: \$36,130,000 (Budget) | | |
| Days In Reserve | 120 Days | 60 Days |
| FY 2016/17 | \$11,880,000 | \$5,940,000 |
| Debt Service | | |
| Annual Debt Service: \$28,730,000 | | |
| Percent in Reserve | 100% | 50% |
| FY 2016/17 | \$28,730,000 | \$14,370,000 |
| Emergency Capital | | |
| System Replacement Value \$1.0 Billion | | |
| Percent in Reserve | 1% | 0.50% |
| FY 2016/17 | \$10,000,000 | \$5,000,000 |
| Capital Construction | | |
| Projected CIP (Escalated) Five-Year Rolling Average | | |
| Percent in Reserve | 50% | 25% |
| FY 2016/17 | \$15,820,000 | \$7,910,000 |
| Heavy Mobile Equipment Replacement | | |
| Projected Expense (Escalated) Five-Year Rolling Average | | |
| Percent in Reserve | 50% | 25% |
| FY 2016/17 | \$340,000 | \$170,000 |
| Total | Target | Minimum |
| FY 2016/17 | \$66,770,000 | \$33,390,000 |



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16



WITHDRAWAL & REPLENISHMENT

The Public Works Wastewater Division will treat the minimum reserve levels as practical reserve floors and allow reserves to increase or decrease, as directed by the City Council, as necessary within the minimum and target levels prescribed.

17

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REPORTING & OVERSIGHT

Minimum and target levels will be analyzed annually and reported to the City Council as part of the year-end financial report presentation.

The Policy will be reviewed during the two-year budget process, and updated (at a minimum once every three years) if there are material changes.



18

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RECOMMENDATIONS

Recommend that the City Council:

1. Adopt the Sewer Enterprise Fund Reserve Policy; and
2. Direct staff to review the Policy during the City's two-year budget process; and
3. Direct staff to return to Finance Committee with an update at a minimum, once every three years.



19

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