



FAIRFIELD-SUISUN SEWER DISTRICT

1010 Chadbourne Road • Fairfield, California 94534 • (707) 429-8930 • www.fssd.com

POLICY		
Policy Number	2150	Adopted: May 23, 2022 Res No. 2022-12
Type of Policy	Financial Management	
Policy Title	Financial Reserve	
Policy Description	Reviews the type and target level of various District reserves.	

1. Purpose

The purpose of this Financial Reserves Policy (“Policy”) is to provide guidelines to the officers of the Fairfield-Suisun Sewer District (“District”) charged with the responsibility for maintaining and reviewing the District’s reserves.

2. General Policy

A financial reserve provides protection from risk. The District can face risk of revenue shortfalls due to poor economic conditions, natural disasters, and infrastructure failure.

The District has defined several reserves and appropriate targets to guide long-term financial planning and strategic decision making to ensure the District meets the highest standards of care for operations, while avoiding rate fluctuations or “spiking” to meet minimum and target reserve requirements.

3. Types of Reserves

3.1 Operations Fund Reserves

- *Operating Reserve*

The Operating Reserve is maintained in order to meet the liquidity and cash flow needs for the District’s day-to-day operations. This reserve ensures continuity of service regardless of short-term changes in cash flow or sudden increases in operating costs.

The District will maintain an operating reserve equal to 25 percent of the Operations budget, which represents the minimum reserve level. The Operations budget is defined as expenses not related to debt service, Major Maintenance or the Capital Improvement Program.

- *Major Maintenance and Capital Improvement Program Reserve*

This Major Maintenance Reserve is intended to be used for both (a) catastrophic failure of critical infrastructure and (b) managing the inherent volatility of capital spending needs.

Because Major Maintenance and Capital Improvement Program spending is inherently volatile, the District will maintain a target reserve level equal to 100 percent of the five-year average of annual Major Maintenance and Capital Improvement Program spending (rolling average).

- *Collection System Rehabilitation & Replacement (R&R) Reserve*

The District will maintain two reserves for Collection System Rehabilitation and Replacement (R&R) as defined in the 1965 Agreement, as amended. A Collection System R&R reserve shall be maintained for the City of Fairfield, and the City of Suisun City as calculated by the Collection System Asset Management Plan.

To the extent all Operations Fund reserve targets are met, the District will pre-fund the Collection System R&R reserves for the cities at the beginning of the fiscal year. Prior to every fiscal year, each City will budget their anticipated expenditures for Collection System R&R for the upcoming fiscal year. This amount will be included in the District's budget and presented to the District's Board of Directors for approval.

The budgeted amount will be transferred from each City's Collection System R&R Reserve Fund to each City's collection system enterprise fund by August 1 of each year. Overspent or underspend funds from one year will be "trued up" in the next fiscal year.

Although the Collection System Rehabilitation & Replacements reserves are funded from Sewer Service Charges in the Operations Fund, the reserves for the City of Fairfield and City of Suisun City will be maintained in separate funds.

- *Debt Service Reserve*

The District will maintain a reserve equal to one year of debt service based on current loans covenants for existing State Revolving Fund (SRF) loans. Should the District issue any additional debt, the Debt Service Reserve will represent the requirements of all debt service.

3.2 Capacity Fee Fund Reserves

- *Capacity Fee Reserve*

The District will maintain Capacity Charge reserves as follows:

- All revenue collected prior to July 1, 2022 will remain reserved for growth related projects.
- Revenue collected after July 1, 2022 can be used for rehabilitation and repair projects identified in the Major Maintenance and Capital Improvement Program Budget, and is no longer restricted for only growth-related projects.

3.3 Drainage Maintenance Fund Reserves

- *Drainage Maintenance Reserves*

Within the Drainage Maintenance Fund, the District shall maintain three separate reserves:

- Operations Reserve – The District will maintain a minimum reserve of 10 percent of average annual Drainage Maintenance revenues. If the Operating Reserve target is met, additional net revenues should be allocated to the Drainage Maintenance and Capital Improvement Program Reserve unless there are anticipated operating impacts that need to be mitigated above the target Operating Reserve.
- Major Maintenance Reserve – The District will maintain a minimum reserve of 25 percent of average annual Drainage Maintenance revenues.
- Desilting Reserve – Annually the District will transfer \$30,500 to a Desilting Reserve for the ongoing maintenance dredging of the Suisun City Marina Village Channel Improvements, payable upon the Suisun City's request.

4. Procedures

The General Manager, or their designee, is responsible for managing reserves in accordance with this policy. The Board of Directors may authorize use of reserves in accordance with applicable District policies and procedures.

FAIRFIELD-SUISUN SEWER DISTRICT
RESOLUTION NO. 2022-12

A RESOLUTION ADOPTING A FINANCIAL RESERVE POLICY

WHEREAS, the Fairfield-Suisun Sewer District has previously adopted various resolutions describing reserves required for Operations, Major Maintenance, and Drainage Maintenance; and,

WHEREAS, for administrative ease and recordkeeping, the District desires to supersede previous resolutions setting requirements for reserves; and,

WHEREAS, the District desires to capture all reserve requirements in one policy; and,

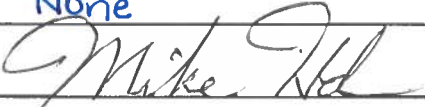
WHEREAS, The District proposes the attached Financial Reserve Policy.

NOW, THEREFORE, BE IT RESOLVED, BY THE BOARD OF DIRECTORS OF THE FAIRFIELD-SUISUN SEWER DISTRICT THAT:

1. The District hereby adopts Policy 2150: Financial Reserve Policy, which supersedes all reserve requirements determined by previous resolutions, and specifically requirements set by resolutions 95-07, 95-34, and 05-11.
2. The General Manager is authorized and directed to take all steps necessary and proper to implement this resolution.

PASSED AND ADOPTED this 23rd day of May 2022, by the following vote:

AYES:	Directors	<u>Day-Hernandez-Hudson-Panduro-Price Timm-Tonnesen-Williams-Vaccaro</u>
NOES:	Directors	<u>None</u>
ABSTAIN:	Directors	<u>None</u>
ABSENT:	Directors	<u>None</u>



President

ATTEST: Talyon Sorter
District Clerk

Attachment 1 – Policy 2150: Financial Reserve Policy