

RESOLUTION 2019-13

A RESOLUTION OF THE SELMA-KINGSBURG-FOLWER COUNTY SANITATION DISTRICT BOARD OF DIRECTORS ESTABLISHING A RESERVE POLICY FOR VARIOUS DISTRICT FUNDS FISCAL YEARS 2020 TO 2024.

WHEREAS, the Selma-Kingsburg-Fowler County Sanitation District (District) wishes to update its reserve policy.

WHEREAS, the District engaged Raftelis to provide recommendations regarding the policy for each of the District's separate funds, which includes District O&M, District Expansion, District R&R and the Selma, Kingsburg, and Fowler R&R funds.

WHEREAS, a reserve policy provides a basis for the District to cash-fund operations and maintenance (O&M) and capital improvement plan (CIP) expenses until it receives bi-annual rate revenues from the tax roll and to cope with fiscal emergencies, such as revenue shortfalls, asset failures, natural disasters, etc. It also provides for sound financial management with an overall long-range perspective to maintain financial solvency and mitigate financial risks associated with revenue instability, volatile capital costs, and emergencies. Additionally, adopting and adhering to a sustainable reserve policy enhances financial management transparency, which improves public confidence and elected officials' credibility and helps achieve or maintain a stronger credit rating for future debt issuances.

WHEREAS, the District's various funds are sufficient to pay for the O&M expenses and capital costs associated with providing regular wastewater service to its customers; however, a sound reserve policy will mitigate against potential cash flow risks or asset failures and allow the District to maintain fiscal stability in light of those issues.

WHEREAS, a sound reserve policy can help the District minimize certain liabilities associated with system failures, which not only include the cost of repairing the asset, but the consequences of interrupted service, customer lawsuits, and/or health and safety issues.

WHEREAS, the recommended reserve policy consists of operations, capital, and/or emergency components for each fund but does not include the District Expansion fund, which pays for costs associated with growth and expansion and is funded by capacity fee revenues from new customers.

WHEREAS, the District has considered the following:

Operations: The District receives the majority of its rate revenues twice a year. Due to this, the recommended O&M reserve policy is to target 50% of annual O&M expenses at the end of each year to maintain adequate cash flow and to fund planned and unexpected O&M expenses.

Capital: Capital project costs can also be volatile and unpredictable; it is recommended that the District reserves 100% of the five-year average CIP costs to cash fund capital projects upfront. The capital reserve policy includes District, Selma, Kingsburg, and Fowler R&R funds.

Emergency: Emergency reserves are funds which provide capital to handle critical asset failures. For District-owned assets, such as plants and interceptors, District staff estimated repair costs between \$500,000 to \$1,000,000; the average of these costs are used to determine the District emergency reserve policy. For city-owned assets, such as pipelines, District staff estimated repair costs between \$350,000 and \$500,000 for a pipeline failure. For the City of Selma, the emergency reserve policy is equal to the higher estimate, as Selma's wastewater system is larger and older than the other cities' and is costlier to repair. For the Cities of Kingsburg and Fowler, the emergency reserve policy is equal to the average repair costs required for a pipeline failure.

NOW THEREFORE, the Board of Directors of the Selma-Kingsburg-Fowler County Sanitation District resolves as follows:

Section 1. The foregoing recitals are incorporated by reference and form the basis for the adoption of a reserve policy.

Section 2. The Board hereby establishes a Reserve Policy for Fiscal Years 2020 to 2024 for District funds as follows:

Recommended Reserve Policy	Policy	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
District O&M Fund						
Reserve Target		\$3,287,665	\$3,401,612	\$3,527,916	\$3,653,936	\$3,784,870
O&M	50% of annual O&M expenses	\$3,287,665	\$3,401,612	\$3,527,916	\$3,653,936	\$3,784,870
District R&R Fund						
Reserve Target		\$3,571,706	\$2,595,101	\$2,339,407	\$2,282,783	\$1,973,636
Capital	100% of 5-year avg. CIP costs	\$2,821,706	\$1,845,101	\$1,589,407	\$1,532,783	\$1,223,636
Emergency	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000	\$750,000
Selma R&R Fund						
Reserve Target		\$951,074	\$1,083,010	\$1,155,618	\$1,112,221	\$1,101,834
Capital	100% of 5-year avg. CIP costs	\$451,074	\$583,010	\$655,618	\$612,221	\$601,834
Emergency	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
Kingsburg R&R Fund						
Reserve Target		\$735,097	\$785,290	\$743,259	\$754,074	\$732,431

Capital	100% of 5-year avg. CIP costs	\$385,097	\$435,290	\$393,259	\$404,074	\$382,431
Emergency	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000
Fowler R&R Fund						
Reserve Target		\$639,307	\$683,067	\$692,090	\$685,470	\$678,651
Capital	100% of 5-year avg. CIP costs	\$289,307	\$333,067	\$342,090	\$335,470	\$328,651
Emergency	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000	\$350,000

Section 3. Reserve balances shall be reported in the District’s monthly financial reports.

Section 4. The General Manager shall perform a reserve analysis to be submitted to the Board when (i) the Board deliberates on its annual budget; (ii) upon the deliberation of a service charge rate increase; and (iii) when a major change in conditions threatens the reserve levels established within this policy.

CERTIFICATION

The foregoing Resolution No. 2019-13 was introduced by Director Mendes, seconded by Director Magsig, and adopted on roll call on May 9, 2019 by the following vote:


AYES: Directors Magsig, Avalos, Cárdenas, Vice Chair Mendes, Chairwoman Roman

NOES: _____

ABSTAIN: _____

ABSENT: _____

WHEREUPON, the Chairperson declared the foregoing resolution adopted.



 Ben Muñoz, Jr.,
 Secretary of the Board of Directors
 SELMA-KINGSBURG-FOWLER
 COUNTY SANITATION DISTRICT