



SANTA FE IRRIGATION DISTRICT

RESERVE FUNDS POLICY

NOVEMBER 2021

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1. **Policy Statement**

A key element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, and debt service needs. Through planning and undertaking regular cost-of-service review, the Santa Fe Irrigation District (District) will at all times strive to have sufficient funding generated from current revenues to meet its operating expenditures, Pay-Go (defined below in section 4) for capital projects, and debt service cost obligations. Additionally, fiscal responsibility requires anticipating the likelihood of and preparing for unforeseen events. This Reserves Funds Policy outlines specific accounts to meet these planned and unforeseen obligations.

The Board of Directors (Board) may designate specific fund accounts and maintain minimum fund balances consistent with statutory obligations that it has determined to be in the best interest of the District. The Policy directives outlined in this document are intended to ensure the District has sufficient funds to meet current and future needs. The Board will annually review and approve reserve amounts for each fund at the completion of the District annual audit.

2. **Definitions**

There are two types of net Funds:

- I. **RESTRICTED FUNDS:** Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.

- II. **UNRESTRICTED FUNDS:** These funds have no externally imposed use restrictions. The use of unrestricted funds is at the discretion of the Board. Unrestricted funds can be designated for a specific purpose, which is determined by the Board. The Board also has the authority to redirect the use of these funds as the needs of the District change.

3. **General Provisions**

The District will maintain operating and capital funds in designated accounts. The target fund balances are considered the minimum necessary to maintain the District's credit worthiness and adequately provide for:

- Compliance with applicable statutory requirements
- Financing of future capital facilities
- Cash flow requirements

- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Contingencies or unforeseen operating or capital needs

Through a variety of policy documents and plans, including the District Administrative Code, District Master Plans, Long Range Financial Plans, and District Strategic Plan, the Board has set forth a number of long-term goals for the District. A fundamental purpose of the District’s policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so.

The District has established and will maintain the following Fund accounts:

- Capacity Charge
- Capital Improvement and Replacement
- Operating
- Rate Stabilization
- Local Water
- Pension Stabilization

Fund balances will be reviewed on an annual basis at the completion of the District’s annual audit to reconcile the fund balances and assess the District’s financial capacity to accomplish identified activities and projects.

The minimum target balance established for each fund represents the baseline financial condition that is acceptable to the District from a risk management and financial planning perspective. Maintaining funds at appropriate levels is an ongoing business process that consists of a periodic assessment of revenues and expenditure levels. This assessment includes (either alone or in combination with each other), but is not limited to, a review of fees and charges, water usage, capital financing methods, rate of return on investment of funds, and levels of capital expenditures. A maximum balance is established for each fund as a way to ensure that the District may prioritize capitalization of each reserve as the Board may see as necessary and prudent, while not holding excess monies that may unduly impact ratepayers.

4. **Santa Fe Irrigation District Funds**

I. RESTRICTED FUNDS

- a. Capacity Charge Fund: The Capacity Charge Fund is a Restricted Fund governed by state law. The District collects capacity charge revenue and allocates expenditures in accordance with Government Code Section § 66013.

Source of Funds:

- Prior year ending balance carried forward
- Capacity Charge revenues

Designation of Expenses:

- Growth/expansion related capital improvements
- System upgrades/enhancements

II. UNRESTRICTED FUNDS

The source of funds for each of the listed unrestricted fund may come from any other unrestricted fund as seen fit by the Board of Directors, so long as maximum Policy levels are not exceeded.

- a. Capital Improvement and Replacement Fund: The Capital Improvement and Replacement Fund is an unrestricted fund, which is designated by the Board for capital improvements to meet regulatory requirements, system reliability, facility replacement projects, and future infrastructure upgrades, among other items. These capital improvements are identified in the Asset Management Master Plan (“AMMP”) and outlined in the District’s (including joint facilities) ten-year Capital Improvement Program. The funds are accumulated and drawn down in a manner consistent with this Policy. The Board reviews utilization and funding of the Capital Improvement and Replacement Fund during the District’s annual budget process and updated during District mid-year projections. It is the Board’s intent to annually deposit all property tax revenues and an amount equal to the District’s total annual depreciation and amortization into the fund for Pay-Go of capital expenditures, in combination with any additional amount(s) as determined by the Board.

Source of Funds:

- Prior year ending balance carried forward
- Allocation of funds by Board action
- Annual contribution from operating revenue in an amount equal to depreciation and amortization expense
- San Dieguito Water District (SDWD) contributions – RE Badger capital expenses
- Property tax revenue

Designation of Expenses / Uses:

- Capital improvement projects
- Capital repairs and replacement projects
- Major equipment acquisitions
- Office fixtures and furnishings, computer equipment and collateral items
- Emergency capital repairs and replacement

Target Fund Balance: The Capital Improvement and Replacement Fund target balance shall not exceed 100% of the total of the Pay-Go portion of the first three years of the current ten-year Capital Improvement Program (CIP) costs as identified in the Asset Management Master Plan. The Capital Improvement Fund target balance shall at all times equal or exceed 100% of the Pay-Go portion of the current fiscal year’s CIP, 50%

of the Pay-Go portion of the following fiscal year's CIP, and 25% of the Pay-Go portion of the succeeding fiscal year's CIP.

Pay-Go is defined as the portion of capital expenditures that are not funded through debt issuance.

- b. Operating Fund: The Operating Fund is an Unrestricted Fund that is designated by the Board to maintain working capital for current operations in the event of unforeseen circumstances. Utilization of the operating fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Reserve Funds Policy levels shall also be accompanied by a plan and timeline for replenishment.

Source of Funds:

- Prior year ending balance carried forward
- Allocation of funds by Board action
- Net operating income

Designation of Expenses / Uses:

- Funding requirements due to short term revenue and expenditure imbalance
- Intra-fiscal year cash flow timing without Board approval, so long as the fund balance is not impaired by fiscal year-end

Target Fund Balance: The Operating Fund target balance shall be a minimum of sixty (60) days and a maximum of one hundred and twenty (120) days of the current fiscal year's operating budget, less depreciation / amortization and any portion of costs paid by SDWD.

- c. Rate Stabilization: The Rate Stabilization Fund is an Unrestricted Fund utilized to avoid unacceptable rate increases in combination with a cost-of-service study. Additionally, the fund may be utilized to accommodate a temporary reduction in revenues or increase in expenses such as (but not limited to) short term reductions in water sales and / or the purchase of imported water due to lack of local water. This fund may also be utilized to maintain compliance with any indebtedness obligations. Utilization of the rate stabilization fund shall only be based on Board action, and any request by Staff to use the fund that shall bring the reserve below minimum Reserve Funds Policy levels shall also be accompanied by a plan and timeline for replenishment.

Source of Funds:

- Prior year ending balance carried forward
- Allocation of funds by Board action
- Net operating income

Designation of Expenses / Uses:

- Provide operating revenue to offset unacceptable rate increases

- Offset water sales revenue loss or sudden increase in expenses
- Purchase of additional imported water to offset lack of local water
- Compliance with debt service obligations

Target Fund Balance: The Rate Stabilization Fund target balance shall not fall below the sum of the following:

- 100% of the cost to replace the current fiscal year’s budget for local water with San Diego County Water Authority (SDCWA) untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation

And shall not at any time exceed the sum of the following:

- One year of principal and interest payments on indebtedness
- 100% of the cost to replace the current fiscal year’s budget for local water with SDCWA untreated water – calculated as the current melded untreated M&I supply rate plus the transportation rate at the time of reserve reconciliation
- 25% of the current fiscal year’s budgeted variable water sales revenue

- d. Local Water: The Local Water Fund is an unrestricted fund intended to segregate expenditure savings that are generated due to a greater utilization of local water than projected to set potable water rates for customers. These savings deposited into the Local Water Fund are generated through the rate(s) charged to potable water customers who utilize tier(s) or a unitary rate that includes imported water. Any funds deposited into this fund will be returned to customers who purchase water at imported water tier(s) or a unitary rate, through one of two means: 1. during subsequent cost-of-service development to offset imported water costs for all tier(s) or unitary rate that includes imported water for permanent potable water customers in a way that is consistent with cost-of-service principals; or 2. to offset annual imported water cost increase(s) from SDCWA that are passed on to District customers. The goal of the Board is to return any fund balance to customers each January 1st; however, the Board may modify this timeline if necessary.

Source of Funds:

- Savings on purchased water from SDCWA as compared to projections utilized to set potable water rates

Designation of Expenses / Uses:

- Utilization to offset imported potable water costs for any customer class tier(s) or uniform rate that includes such costs

Target Fund Balance: There is no minimum or maximum target balances for this fund.

- e. Pension Stabilization: The Pension Stabilization Fund is an unrestricted fund established by the Board of Director’s Pension Funding Policy. All funds will be

deposited into an IRS compliance Section 115 Trust & invested in asset(s) as directed by the Board.

This fund will be a mechanism to offset any increase in the District's Unfunded Actuarial Liability (UAL) due to CalPERS negative variance from their projected rate-of-return and / or change in demographics. Any negative variance or change in demographics may increase the UAL Contribution through the addition of a new amortization base when CalPERS publishes the District's updated annual valuation report. The General Manager will offset this new amortization base with any available contribution(s) from the Pension Stabilization Fund to maintain the level UAL Contribution. This Pension Stabilization Fund will be reconciled annually in conjunction with the completion of the annual audit and Reserve Fund Policy reconciliation.

Based on any negative variance that cannot be accommodated by the Pension Stabilization Fund due to insufficient balance, Staff will bring forward a proposal to the Board on option(s) to replenish this fund or to make an additional discretionary payment to CalPERS to maintain the consistent UAL Contribution, including the timeframe to do so

Source of Funds:

- District undesignated fund balance, transfers from other reserve funds, or built into potable water rates.

Designation of Expenses / Uses:

- Offset increases in District UAL due to negative projected rate-of-return variance and / or a change in demographics

Target Fund Balance: There is no minimum target balance for this fund. The maximum balance will be when assets on deposit with CalPERS and Pension Stabilization Fund balance combined exceeds 110% of the District's current UAL.

5. **Delegation of Authority**

The Board of the Santa Fe Irrigation District has sole authority to amend or revise the District's Reserve Funds Policy. Management responsibility for the Reserve Funds Policy is hereby delegated to the General Manager, who through approval of this Policy has established written procedures for the management of the District's Funds.