



POLICY

Ironhouse Sanitary District

Policy No.:	Finance 13-01	Type of Policy:	Finance
Policy Title:	Unrestricted Designated Financial Reserves		
Policy Description:	Provides guidance for the prudent accumulation and management of designated reserves		

Approval Date:	October 1, 2013	Last Review Date:	October 1, 2013
Approval Resolution No.:	Resolution 13-07	Next Review Date:	October 1, 2018

Rescinded Resolution Nos.:		Rescinded Resolution Date:	
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Purpose:

It is the Policy of the Board of Directors of Ironhouse Sanitary District:

To designate unrestricted financial reserves in order to protect the District's investment in its various assets, satisfy its commitments under its numerous financial, regulatory and contractual obligations and to stabilize long-term rates for its customers.

Designated unrestricted reserves are earmarked by the Board of Directors for purposes such as funding new capital facilities, construction, repair, replacement or refurbishment of existing facilities, rate stabilization, emergencies, and operating reserves. These funds can be utilized at the discretion of the District. The Board can change reserve designations at any time. Designated unrestricted reserves are different than restricted reserves, which are used strictly to meet requirements established by creditors, grant agencies or law. Reserves held by a third-party as bond reserves or for pension obligations are examples of restricted reserves; the District has no discretion as to the use of these funds.

If the District is contractually obligated to hold additional reserves, the more stringent requirement takes precedence.

To accomplish these objectives, the District shall adhere to the following:

Operating Reserve

Purpose: The purpose of the Operating Reserve is to ensure adequate cash is available when needed to pay the District's normal and recurring operating costs. It also serves as the District's line-of-credit for service fees in which the first County installment of 55% is not paid until December of the fiscal year.

Use of Funds: Funds are utilized throughout the year in order to meet the District's operating obligations.

Target: Operating reserve equal to seven months of budgeted operating and non-operating expenses (operating costs), excluding depreciation and expenses paid from other reserves (i.e. expansion reserve).

Minimum: One month of budgeted operating costs.

Maximum: Seven months of budgeted operating costs. If reserves are above this level at fiscal year end, the General Manager/Treasurer shall direct the transfer of 80% of the excess to the District's Capital Expenditure Reserve, and 20% of the excess to the District's Rate Stabilization Reserve.

Reporting: The Operating Reserve balance shall be reported in the District's monthly financial reports.

Capital Expenditure Reserve

Purpose: The purpose of Capital Expenditure Reserve is to ensure that adequate funds are available to purchase new capital assets that benefit current ratepayers, to fund replacements, improvements and major refurbishments to existing capital assets.

Use of Funds: Funds are utilized in accordance with the capital expenditure budget adopted by the Board of Directors.

Target: Capital Expenditure Reserve targets shall consist of two components:

- 1) An emergency reserve of 1% of the cost basis of the District's capital assets; and
- 2) An amount equal to the District's 5-year Capital Expenditure Plan.

Minimum: A minimum reserve consists of the first of the above elements.

Maximum: Two times the target.

Reporting: The Capital Expenditure Reserve balance shall be reported in the District's monthly financial reports.

Rate Stabilization Reserve

Purpose: The purpose of Rate Stabilization Reserve is to support the Board's strategic goal to manage public funds to assure financial stability, including stability of revenues and the rates and charges related to the District.

Over the course of time, the District will have years where there is a financial surplus above the Operating Reserve target established by the District and years when unexpected events may cause reserves to decrease below the target. The Rate Stabilization Reserve allows the District to manage these different sets of circumstances.

Use of Funds: The Rate Stabilization Reserve is assessed at fiscal year end.

- If the Operating Reserve has decreased below the reserve target, a transfer from the Rate Stabilization Reserve to the Operating Reserve of no more than one-quarter of the Rate Stabilization Reserve balance shall be made in an effort to bring the Operating Reserve back to its target. If the initial transfer does not restore the target fund balance, General Manager/Treasurer shall inform the Board and request additional fund transfer.
- If the Operating Reserve has exceeded its target by an amount equal to an additional month of operating costs, the General Manager/Treasurer shall direct the transfer of excess reserve from the Operating Reserve to the Rate Stabilization Reserve.
- The Board may also budget use of these funds for other purposes.

Target: Two months of the District's budgeted operating costs.

Minimum: Once funded, the minimum balance shall be one month Operating Reserve.

Maximum: If the combined total of the Operating Reserve and Rate Stabilization Reserve exceeds 12 months of budgeted operating costs, the General Manager/Treasurer will make a recommendation to the Board of Directors as to how the funds should be used.

Reporting: The General Manager/Treasurer shall report annually to the Finance Committee on the results of the Operating Reserve fund balance.

Jersey Island Use Permit Reserve

Purpose: The purpose of the Jersey Island Use Permit Reserve is to maintain a designated reserve reflecting the balance of fees collected from parking passes for Jersey Island Use Permit holders.

Use of Funds: Funds from parking passes are used to support the Jersey Island hiking, fishing and hunting program; to install, operate and maintain designated parking lots, protective fencing, signage, and the planting of birds, seeding of designated fields, administration, labor and equipment usage.

Target: Jersey Island Use Permit Reserve is funded by users. The target is one year of budget fees collected from users.

Minimum: A minimum reserve consists of 6 months of user fees.

Maximum: A maximum reserve consists of two years of user fees.

Reporting: The Jersey Island Use Permit Reserve balance shall be reported in the District's monthly financial reports.