

COUNCIL POLICY			
Subject:	Policy Number	Effective Date	Number of Pages
CITY OF SANTA ROSA UTILITIES DEPARTMENT AND SANTA ROSA SUBREGIONAL WATER REUSE SYSTEMS SANTA ROSA WATER RESERVE POLICY	000-57	02/26/13	Page 1 of 4

I. BACKGROUND

The City of Santa Rosa maintains contingency reserves for all major operating funds. The City of Santa Rosa's water and wastewater enterprises and the Santa Rosa Subregional Water Reuse System enterprise support public health and safety by providing safe and economical water supply and wastewater collection for the City of Santa Rosa and wastewater treatment, as well as disposal, reclamation, industrial waste inspection and laboratory services to all of the Subregional partners .

II. PURPOSE

Maintaining adequate reserves provides flexibility to respond to fluctuations in revenues and costs and respond to short-term emergencies. Adequate reserves directly affect a utility's bond rating, and, ultimately, its ability to borrow money at lower interest rates. This policy establishes the intended use of the various reserves and the desired level of reserves in order to:

- Fund unanticipated capital projects and infrastructure replacement and construction
- Offset lower than expected revenues due to water shortage emergency, low sales due to cool or wet weather, etc.
- Offset demand fee fluctuations due to development patterns, trends and issues
- Provide short term funding in case of local disaster or catastrophic event
- Meet bond covenants and loan requirements

III. POLICY

DISCRETIONARY RESERVES

A. Operating Reserves

Amended by Resolution No. 28244
Dated: June 13, 2006

Dated: February 26, 2013 Adopted by Resolution No. 26592

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The Subregional operating reserves will have a target balance of 15% of annual budgeted operation and maintenance expenses to provide working capital, as well as funds for unanticipated expenditures and for minor emergencies. The Subregional User agencies will contribute any additional funds necessary to maintain the target level of operating reserves each year as part of the budget process.

The Water and Wastewater operating reserves will have a target balance of 15% of actual expenditures in each utility to provide working capital, as well as funds for unanticipated expenditures or revenue shortfalls and for minor emergencies. In addition, the utility may plan for the use of up to 50% of the minimum target reserve with each ~~biennial rate update process~~ budget cycle, so long as the operating reserve is shown to return to the target minimum balance within a 5-year planning period.

B. Capital Reserves

The target level for capital replacement reserves is \$2,000,000 each for the water and local wastewater enterprises and \$1,000,000 for the Subregional Water Reuse System enterprise.

Because project timing and cost is inherently uncertain, capital replacement reserves shall be periodically used to absorb unexpected cost increases or allow for accelerated timing of projects to improve flexibility in managing and efficiently carrying out the capital improvement programs. Since traditional reserves do not get appropriated and therefore are not under the authority of the Board of Public Utilities for such use, the capital replacement reserves will be appropriated into the CIP as part of the Council's annual budget review and approval each fiscal year. Staff will use the appropriated Capital Replacement Reserves to cover higher than expected costs, to accelerate previously approved projects, or to accommodate unforeseen changes in project scope. During each fiscal year budget, any monies used from these appropriated reserves shall be restored.

C. Catastrophic Reserve

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~~As determined by the updated Water and Wastewater Catastrophic Reserve Review—Letter Report, prepared by GHD Engineering in 2012, catastrophic reserves will have a target balance of \$4,400,000 for the water enterprise; \$5,200,000 for the local wastewater enterprise, \$1,300,000 for the Subregional Water Reuse enterprise and an additional \$1,250,000 specifically for the Geysers Recharge portion of the Subregional enterprise. It was recommended in the 2015 Rate Report that Santa Rosa Water increase the amounts in the catastrophic reserves to account for the effects of inflation since 2006. The approximate increase in the 20-cities construction cost index (CCI) as published by the Engineering News Record is approximately 30% over this time period. As determined by the Water and Wastewater Catastrophic Reserve Review – Letter Report, prepared by GHD Engineering in 2012 and escalated per the recommendations of the 2015 Rate Report, catastrophic reserves will have a target balance of \$5,750,000 for the water enterprise; \$6,800,000 for the local wastewater enterprise, \$1,700,000 for the Subregional Water Reuse enterprise and an ~~keep the~~ additional \$1,250,000 specifically for the Geysers Recharge portion of the Subregional enterprise.~~

Catastrophic reserves are intended to protect against the potential financial risk to each utility associated with a major earthquake or other catastrophic event. The proposed amount for water and local wastewater catastrophic reserves are based on the estimated cost of restoring "basic services" in the water and local wastewater systems following a major earthquake on the Rodgers Creek fault. Water Enterprise Fund Catastrophic Reserves are also ~~identified~~identified in the City's adopted Urban Water Shortage Contingency Plan to be used in the event of a declared water shortage emergency to offset lost revenue from mandatory water restrictions. The Subregional Water Reuse System catastrophic reserve shall be maintained to repair damage to equipment, structures and materials stored on site in the event of potential greater flood events or other disaster. The Geysers Recharge reserve will be available to restore service should a catastrophic event (e.g. landslide) jeopardize the City's ability to deliver water to the Geysers Recharge project.

In the event of a severe catastrophic event, unencumbered capital improvement funds may be reprioritized to accommodate necessary repairs and priorities at the recommendation of the

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Board of Public Utilities and approval of the City Council. At the end of each fiscal year, staff will notify the Board of Public Utilities if the capital improvement project fund balance falls below the two year running average of fiscal year funding for the water and wastewater capital improvement program.

During each fiscal year budget, any monies used from the catastrophic reserves shall be restored unless otherwise directed by the Board of Public Utilities.

D. Subregional User Agency Reserve

The City of Santa Rosa owns and operates the Santa Rosa Subregional Water Reuse System for the benefit of the City and the surrounding communities of Rohnert Park, Cotati, Sebastopol and the South Park County Sanitation District. The Subregional Water Reuse System periodically issues revenue bonds for capital projects or improvements. Debt service on these bonds is paid by the user agencies in proportion to the benefit of the improvements per the Subregional Agreement in place at the time the debt was incurred for specific projects.

The Subregional User Agency Reserve will be funded by all user agencies to enhance the City's Subregional fund liquidity and to provide a user agency funded security for debt service payments. This reserve will be maintained at approximately 20% of annual debt service amounts.

E. Other Reserves

Water and Wastewater fund debt rate stabilization reserves are intended to enhance the Utility's bond ratings by adding a stable source of liquidity to a fund with outstanding debt. Debt rate stabilization reserve levels will be determined as part of the utility's long term financing plan.

Remaining reserves, or reserves over the minimum reserve level, will fluctuate as revenues and expenses exceed or fall short of projections. Reserve levels in excess of the minimum, may be retained as reserve funds to buffer future revenue fluctuations and therefore offset unexpected

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rate changes or, subject to appropriation by Council, may be used by the Utility at the Board of Public Utility's direction to offset one-time costs or for special projects, or any combination thereof.

DESIGNATED OR RESTRICTED RESERVES

A. Designated (or restricted) reserves are set by external requirements and restraints of creditors, grantors contributors or law. The water, local wastewater and Subregional Water Reuse System will maintain such reserves as required by bond covenants, state revolving loan contract or other requirements as needed.