



## **Budgeting and Fiscal Management Appropriate Level of Reserves Policy 7.1.0**

*(Replaces Policy 7.1.0 and 19.1.0 and Practice 7.2.0 and 19.2.0)*

**POLICY.** This policy establishes the minimum level of reserve funding to be maintained by the District within the fund balance of its governmental funds and net position of its proprietary enterprise funds. The policy further provides for the conditions under which reserve funds may be utilized, and a timeline for replenishment of reserve funds, when utilized.

**1.0 Purpose.** The District desires to maintain prudent reserves for each of its major funds, consistent with best practices, to guard against the financial impacts associated with economic cycles, revenue fluctuation, and unanticipated emergencies and/or mandates. Major funds include the General Fund, Utility Fund, Community Services Fund and Beach Fund.

In addition, this policy will also establish appropriate level of working capital to be maintained within its enterprise funds in order to meet its cash flow requirements related to operations and maintenance, contractual obligations, capital program expenditures and debt service.

### **2.0 Target Reserve Levels**

**2.1 General Fund Reserves.** The policy of the District shall be to maintain a target fund balance within the General Fund equal to 15% of annual budgeted expenditures (less transfers and debt), to provide for economic uncertainty, fluctuations in General Fund revenues and unforeseen events that may require of unbudgeted expenditures.

Of this amount, 5% is designated as a reserve for economic uncertainty in the event that general fund revenues received within the fiscal year fall short of the amounts assumed in the approved budget.

An additional 10% is to be designated as an emergency reserve to cover unanticipated expenditures resulting from emergencies or unanticipated mandates.

In no case shall the fund balance for the District's General Fund fall below the 4% of expenditures required under Nevada Administrative



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Code Section 354.

The target reserve level established for the District's General Fund shall be reviewed annually.

**2.2 Enterprise Fund Reserves.** The policy of the District shall be to maintain target levels of reserves within the Unrestricted Net Position of each of its enterprise funds (excluding Internal Service Funds), as follows:

**2.2.1 Target Reserve Levels**

Operating Reserve Target: 25% of annual budgeted operating expenses (excluding depreciation and debt).

Capital Reserve Target: 1 year of 3-year average annual budgeted depreciation.

Debt Reserve Target – The District's approved annual budget will maintain required debt coverage ratios for all existing debt. In addition, should the District issue any variable-rate debt obligations, an additional debt reserve shall be established at a level equal to one year's interest expenses related to variable-rate debt.

The target reserve levels established for each of the District's enterprise funds shall be reviewed annually.

**2.2.2 Internal Services Funds**

Internal Service Funds (Engineering, Buildings, Fleet) are intended to be self-funding business-type activities supporting internal customers. At year-end, adjustments are made to user charges to ensure fund revenues and expenditures are balanced. As such, operating reserves are not required to be maintained.



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- 2.3 Other Designations.** The Board of Trustees may designate additional fund balances for specific purposes, which are to be considered in addition to the reserve levels established under this policy.
- 3.0 Working Capital.** The District will establish target levels of working capital that should be maintained within its enterprise funds in order to meet its cash flow requirements related to operations and maintenance, contractual obligations, capital program expenditures and debt service.
- 3.1. Target Level of Working Capital:**
- Working Capital Target = 90-days operating expenses (inclusive of depreciation and interest expense).
- Working Capital serves primarily as a measure of fund liquidity and, as such, should be viewed as a component of, and not incremental to, the target reserves levels otherwise established by this policy.
- 4.0 Appropriate Use of Reserves.** The targeted level of reserves established by Board policy serve to address significant short-term issues, including unexpected revenue shortfalls, higher than anticipated expenditures, or unforeseen emergencies.
- It is the intent of the Board of Trustees to limit the use of reserves to address unanticipated, non-recurring needs. Fund balances should not be applied to recurring annual operating expenditures. Fund balances may, however, be applied buffer the impacts of a loss or reduction in revenues to allow time for the District to restructure its operations, but such use will only take place in the context of a Board-approved long-term financial plan.
- 5.0 Excess Unrestricted Fund Balance or Net Position.** At the end of each fiscal year, the Finance Department will report on the audited year-end budgetary fiscal results. Should actual revenues exceed expenditures, including contractual obligations and carryforward items, a year-end surplus shall be reported.



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Any year-end operating surplus which results in unrestricted fund balances or unrestricted net position in excess of the targeted reserve levels established by the policy, shall be deemed available for allocation to specific needs, subject to Board action.

Priorities for possible allocation of available funds in excess of established target reserve levels include:

- 1) Payments toward unfunded liabilities, deferred maintenance and asset replacement.
- 2) Transfer to other funds, as deemed appropriate, to offset year-end deficits within those funds.
- 3) Allocation to capital projects with shortfalls in funding sources and/or to provide matching funds for awarded grants.
- 4) Re-appropriation within the subsequent year's operating budget to provide for one-time, non-recurring needs.

**6.0 Replenishment of Reserves.** If the any of the District's reserve balances are required to be drawn-down below the minimum level established by this policy, a plan will be developed and implemented to replenish reserves. Replenishing reserves will be a priority use of one-time resources, and minimum reserve balances will be restored within a maximum of two fiscal years.

**7.0 Utility Rate Stabilization Fund.** The District may establish a Utility Rate Stabilization reserve intended to mitigate potential future year's water and sewer rate adjustments necessary to meet operating, capital and debt obligations of the District's Utility Fund.

Consideration for establishing an appropriate Utility Rate Stabilization Fund should be made in conjunction with development of a periodic multi-year Utility Rate Study as well as annual utility rate adjustments.

Factors in determining whether, and to what extent, a Utility Rate Stabilization fund is warranted should include:



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- Managing long-term utility rates to avoid excessive rate increases in any single year (example = in excess of 2.5-times CPI)
- Mitigating the rate impacts associated with financing significant one-time capital projects
- Mitigating the potential impacts associated with significant fluctuations in charges for service revenues, beyond those associated with normal business cycles (example – mandated water conservation protocols).

**8.0 Other Classifications.** The District will apply other classifications and accounting standards under GASB 54 including the use of Non-Spendable, Restricted, Committed, Assigned, Unassigned and Unrestricted when presenting either a Statement of Net Assets or other forms of fund balance in its financial reports.

Governmental Funds	Proprietary (Enterprise) Funds
Non-Spendable	Net Investment in Capital Assets
Restricted	Restricted
Committed	Unrestricted
Unassigned	Designated
Unreserved Fund Balance	Operating Reserve
Reserve (per Policy)	Capital Reserve
	Debt Reserve
	Other
	Undesignated