
NOVATO SANITARY DISTRICT

POLICY HANDBOOK

POLICY TITLE: Reserves
POLICY NUMBER: 3500

3500.1 Need for Reserves.

Not all operating and capital expenses of the District can be precisely forecast, and factors such as weather, emergency repairs, energy cost fluctuations, third party liability claims, regulatory charges, fines, and regional or national calamities require that the District retain prudent amounts of reserves because of the time required to raise funds through rate increases. The District must accumulate and maintain sufficient fund balances in its operating and capital accounts to meet current and projected expenses, cover cash flow requirements, cover debt payments, and provide for both anticipated and unanticipated liabilities and expenses without adversely affecting the District's ability to provide both short and long term, high quality, uninterrupted service in compliance with applicable federal and state law, and regulatory permits.

3500.2 Rate Stabilization Reserve (RSR).

3500.21 Purpose: The Rate Stabilization Reserve enables the District to meet unusual or unexpected operating or capital expenses.

3500.22 Reserve Amount: The target amount for the Rate Stabilization Reserve shall be \$1,500,000 as of July 1, 2013. It shall be adjusted annually based on the ENR Construction Cost Index for the San Francisco Bay Area.

3500.23 Use: Expenditures from the Rate Stabilization Reserve must be approved by the Board of Directors except that the Manager-Engineer may authorize expenditures in the event of an emergency that threatens public health or environmental quality. The General Manager-Chief Engineer must then convene a noticed meeting of the Board of Directors as soon as it is feasible to obtain a quorum.

3500.24 Replenishment: In the event of drawdown, the Rate Stabilization Reserve shall be replenished within four years.

3500.3 Wastewater Capital Reserve Fund (WCRF).

3500.31 State Revolving Fund Loan: The District borrowed \$81,307,947 from the State Revolving Fund (2011 SRF Loan) between 2008 and 2011. The loan was repaid in full in 2019 through the issuance of the 2019 Revenue Refinancing Bonds. The 2011 SRF loan agreement terms required that the District establish and maintain a "Wastewater Capital Reserve Fund" for expansion, major repair, or replacement of the wastewater facilities for the term of the loan agreement. The District established the Wastewater Capital Reserve Fund (WCRF) by Resolution No. 2933 adopted on April 24, 2006.

While the original 2011 SRF loan has been repaid, the District recognizes that it may require future SRF funding to rebuild/renew its wastewater treatment facilities. Therefore, the District must deposit sufficient funds to build up the WCRF at a minimum rate of 0.5% of the original SRF loan amount each year (or approximately \$400,000/year) to demonstrate good faith efforts towards meeting typical State Revolving Fund (SRF) loan covenants and position the District competitively for consideration for future SRF loans. The District's unused bonding capacity of \$3,275,000 from the 1970 and 1986 GO Bonds may be used to offset, dollar for dollar, the required cash deposits to the WCRF.

Money deposited in the WCRF shall be available for the costs for planning, design, and construction of capital improvements to the wastewater treatment facilities. However, the District must replace any amounts expended from the Wastewater Capital Reserve Fund by depositing at a minimum annual rate of ten (10) percent of the expended amount. Any interest earned on deposits to the WCRF shall remain in the Fund and restricted to the allowed uses.

3500.32 Purpose: The WCRF is dedicated to the expansion, major repair, or replacement of the wastewater treatment facilities in accordance with the terms of the State Revolving Fund loan.

3500.33 Reserve Amount: The projected reserve amount through FY 22-26 is as shown below:

Fiscal Year (FY)	Unused Bonding Capacity	Cash Balance, end of Fiscal Year	Annual Cash Deposit	WCRF Fund Balance
FY 21-22	3,275,000*	1,249,653	100,000	4,524,653
FY 22-23	NA	1,649,653	400,000	4,924,653
FY 23-24	NA	2,049,653	400,000	5,324,653
FY 24-25	NA	2,449,653	400,000	5,724,653
FY 25-26	NA	2,849,653	400,000	6,124,653

* Unused bonding capacity from 1970 and 1986 GO bonds.

3500.34 Control: Expenditures from the Wastewater Capital Reserve Fund must be authorized by the Board of Directors and replaced as specified in the SRF loan terms at a minimum annual rate of 10% of the expended amount.

3500.4 (Reserved)

3500.5 Debt Reserve Funds:

3500.51 Purpose: When debt is issued through instruments such as bonds, the governing documents or covenants for the bonds (for example, a Trust Agreement) typically require that a separate and unique reserve fund specific to that issuance be established.

3500.52 Bond Reserve Funds Not Required: The District currently has three outstanding issuances, namely the 2017, 2019, and 2020 Revenue Refinancing Bonds. However, none of these issuances includes separate or specific reserve fund requirements as part of their covenants or governing documents. Therefore, no separate or specific reserve funds are established for these issuances.
