



<b>Number:</b>	P200-17-2	<b>Type of Policy:</b>	Finance
<b>Title:</b>	Cash Reserves		
<b>Description:</b>	Establishes guidelines for target cash reserves		
<b>Original Adoption:</b>	06/8/17	<b>Reviewed:</b>	02/13/20
<b>Review Cycle:</b>	1 year	<b>Resolution No.:</b>	13-17

The Scotts Valley Water District establishes general guidelines for cash reserves at a level reasonably sufficient for supporting District operations, providing continued investment for maintenance and capital projects and meeting debt service requirements.

The Board of Directors authorizes and sets the target cash reserve level to be the aggregate total of the targets for individual reserve categories.

- 1) Operating Reserve: to provide working capital to support the operation, maintenance and administration of the District ensuring that cash flow needs of normal operations are met.
- 2) Rate Stabilization Reserve: to bridge the temporary revenue shortfall resulting from reduced consumption associated with declining water sales or unexpected increase in short-term operation and maintenance expenses.
- 3) Emergency Reserve: to allow the District to provide uninterrupted service in light of a fiscal emergency, natural disaster or major facility failure.
- 4) Capital Reserve: to provide funds for repair, replacement or improvement of District’s infrastructure assets.
- 5) Debt Service Reserve: to ensure adequate funds for full and timely payment of debt obligations.

The appropriate amount of reserves is determined by a variety of factors, such as the operating budget, amount of debt, type of rate structure, frequency of billing and risk of natural disaster. District’s Reserve Targets are established based on the following criteria:

Operating Reserve	90 days of operating expenses
Rate Stabilization Reserve	20% of volumetric water sales revenue

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Emergency Reserve	2.5% of asset valuation
Capital Reserve	1 year of depreciation
Debt Service Reserve	100% of debt service

The target reserve level will be calculated and reaffirmed annually in the budget adoption process. The District makes every attempt to maintain target levels. When the reserves are depleted or fall below the established levels, a plan for replenishment is developed as part of the annual strategic plan and budget.

The cash reserves policy is established to provide general guidelines for fiscally responsible cash management. The policy is not intended to set strict limits that must be adhered to in a vacuum. Instead, these guidelines are intended to serve as a decision-making tool in planning for and evaluating activities or transactions that could have a significant impact on the level of cash on hand.

The reserve level as established by this policy meets the requirements set by District’s debt covenant.