



**CITY OF DAVIS
WATER, WASTEWATER, SOLID WASTE, AND STORMWATER FUND
RESERVE POLICY**

1. PURPOSE

The purpose of this policy is to establish targeted levels of Water, Wastewater, Solid Waste and Stormwater Utility fund reserves, a crucial component in the financial resilience of public owned utilities. Strong and transparent financial policies, including maintaining adequate reserves for emergencies, rate stability, and working capital, are consistent with best practices in the utility industry, as they help to:

- 1) Ensure cash for daily financial needs to counter revenue volatility and unanticipated expenses is readily available
- 2) Fund equipment and infrastructure purchases to mitigate damages related to a catastrophic event such as a natural disaster
- 3) Protect constituents from rate increases due to unexpected variances from forecasted results that arise from non-recurring events or factors

2. BACKGROUND

The City of Davis Public Works Utilities and Operations Department provides water, wastewater, stormwater and solid waste services for citizens, businesses, and organizations. Public owned utilities are expected to provide uninterrupted service 24 hours a day, 7 days a week while relying largely on service-based revenue. As highlighted by the American Water Works Association, cash reserve balances are a critical component to the utility's financial resiliency and sustainability.

3. DEFINITIONS

Operating Reserve: liquid, unrestricted assets that an organization can utilize to support its operations in the event of an unanticipated loss of revenue, working capital deficiencies, or an increase in expenses.

Emergency Capital Reserve: Funds reserved in this category shall be used to mitigate costs associated with capital purchases due to unforeseen emergencies, including natural disasters. Should unforeseen and unavoidable events occur that require expenditure of City resources beyond those provided in the annual budget, the City Manager shall have authority to approve appropriation of Emergency Reserve funds. The City Manager shall then present to the City Council – as soon as possible– a resolution confirming the nature of the emergency and formally authorizing the appropriation of Emergency Reserve funds.

Rate Stabilization Reserve: Rate stabilization reserves are established to cover wide fluctuations in projected revenue from season to season or year to year. A rate stabilization reserve allows a utility to draw on the fund balance during revenue shortfalls that result from lower than expected revenue. When use of the fund is deemed necessary, the City Manager shall present to the City Council a resolution confirming the nature of the need and authorizing the appropriation of Rate Stabilization Reserve funds.

4. POLICY

The policy illustrated below is the framework established for the Water, Sewer and Stormwater fund. The Public Works Utilities and Operations Director in conjunction with the City Treasurer shall review the Utility reserve balances annually and provide any updates as necessary to the Finance and Budget Commission, Utilities Commission and the City Council.

Reserve Type	Key Considerations	Policy	Methods to Achieve Funding Levels
Operating	<ul style="list-style-type: none"> • Revenue fluctuations • Working capital • Potential risks • Risk management • Daily financial needs • Operating expenditures 	The City will maintain a target 3-month reserve balance for each utility.	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the operating funds.
Emergency Capital	<ul style="list-style-type: none"> • Cost of critical assets • Critical facilities • Catastrophic events such as natural disasters • Availability of other funds • Address unanticipated, nonrecurring needs. 	Target reserve for each utility shall be the average of the planned expenditures in the 5-year Capital Improve Program as provided in each Utility Cost of Service Study (not including any debt-financed projects).	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the capital funds.
Rate Stabilization	<ul style="list-style-type: none"> • Impacts of revenue shortfalls • Drought restrictions • Revenue volatility • Weather • Regional economic conditions • Rate variability • Sharp demand reduction 	Target reserve shall be 5% of annual operating revenue for Stormwater and Wastewater, and 10% of operating revenue for Water.	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the rate stabilization funds.

Solid Waste Reserve Fund Policy: The City of Davis Solid Waste Division is responsible for recycling, garbage, organics collections, street sweeping, and landfill tipping. Eighty-

six percent of the total cost in the fund is a franchise agreement with the waste hauler and the other fourteen percent accounts for state mandated programs, city administrative costs related to operations, and debt service requirements. The solid waste utility does not have assets or large capital expenditures similar to the other City utilities. Due to this difference, and to ensure the fiscal sustainability of the fund, the target reserve is **12** months of *non-contractual* operating expenditures. Non-contractual expenditures are defined as expenditures relating to obligations not expressed in a contract. This allows a reserve for changes in contracted service, emergency services, and revenue fluctuations.

Solid Waste Reserve Policy

Reserve Type	Key Considerations	Policy	Methods to Achieve Funding Levels
Operating	<ul style="list-style-type: none"> • Revenue fluctuations • Working capital • Potential risks • Risk management 	Target reserve is 12 months of non-contractual operating expenditures.	As part of the annual utility review, the Public Works Utility and Operations Director will report the target reserves and actual balances in the operating funds.