

Coachella Valley Public Cemetery District

Reserve Policy

GOAL

The goal of maintaining adequate reserves is to ensure that there are appropriate levels of working capital in the District's funds to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and fees.

Properly designed policies send a positive signal to the community of ratepayers, bondholders, rating agencies, and regulatory agencies that the Board is committed to the District's long-term financial health and viability. Prudent financial management and best practices dictate that the District maintain appropriate reserves for emergency use, capital projects, endowments, obligations accruing on a current basis that will be paid in the future, and those required as a result of legal or external requirements.

OBJECTIVES:

- To establish prudent fiscal reserve policies to ensure strong fiscal management to guide future District decisions.
- This action will provide the District with resources to help stabilize the District's finances, and position it to absorb economic downturns or large-scale emergencies.
- To help smooth rates from year-to-year, and to promote equity over the years to ratepayers.
- To provide funding for current and future replacement of existing assets as they reach the end of their useful lives.
- To assist the District in meeting its short-term and long-term obligations.

RESERVE POLICIES

Definitions

Reserves are defined as the amount of Cash and Investments in that fund, plus the Accounts Receivable, less the Accounts Payable and less Amounts due to Others in the fund. This methodology indicates the relatively liquid portion of total fund capital, which constitutes a margin or buffer for meeting obligations.

1. **Designated Reserves:** Designated reserves are reserves that are established and set aside to be used only for a specific, designated purpose (classified as unrestricted on the audited financial statements).
2. **Restricted Reserves:** Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract (classified as restricted on the audited financial statements).

- 3. Undesignated Reserves:** It is assumed that all reserves will be Designated or Restricted, and therefore, there will be no undesignated reserves per policy. (These are classified as unrestricted on the audited financial statements).

NOTE: The District's audited financial statements segregate Net Position, which includes the effects of all assets and liabilities, some of which are nonspendable, not liquid, or have not been included in the current year budget. Therefore, the definition of Reserves is different than the Net Position, and the two terms should not be used synonymously.

Designated Reserves

Maintaining adequate reserves is important for providing reliable service to customers, financing long-term capital projects, and the funding of emergencies, should they arise. In this context, the following designated reserve categories represent the minimum reserve targets for each fund. However, the District's goal is to have 180 days of cash on hand District-wide to ensure sufficient funding is available to meet its operating capital, and debt service obligations. Days of cash on hand is determined by the amount of unrestricted reserves on hand divided by one day's worth of operating and maintenance expenses (excluding depreciation).

- 1. Operating Reserves** cover operating costs for an established period of time. This reserve will ensure continuity of service regardless of cash flow, and is considered working capital to be used to fund current expenses as needed.

Recommendation:

Maintain minimum operating reserves at 90 days, or 25% of current year budgeted operating expenses (less depreciation and capital outlay). This balance will fluctuate from month to month. However, the year-end objective is to achieve this ending balance.

- 2. Rate Stabilization:** This reserve covers the smoothing of rates in the event of short to mid-term rate revenue loss, and/or higher than anticipated operating expenses that cannot be supported by normal revenues.

Recommendation:

Establish the reserve at the higher of 10% of current year budgeted rate revenues or 10% of total budgeted operating expenses less depreciation and capital outlay.

- 3. Capital Improvement Program (CIP):** Ongoing replacement of capital facilities and additional investment in capital is essential to maintain the desired level of service for District customers and to meet increased demand upon services. This reserve is designated for funding the capital improvement program and unforeseen capital projects. It is designed to stabilize funding for capital by accumulated "pay as you go" reserves to reduce reliance on other funds of capital financing such as debt financing. This reserve can also be used in concurrence with outside funding sources.

Recommendation:

This reserve should be set in a manner consistent with the District's expected capital

funding needs over the 5-year capital planning horizon and it is recognized these needs and funding amounts will vary. As such, the amount needed in this fund will be subject to Board review and discussion with District management. The appropriate level for the capital reserve will be set based on the desired level of “pay as you go” funding in conjunction with other forms of capital funding such as grants and debt. The District will strive to achieve a minimum funding level of 25% of the average five year forecasted pay-as-you-go capital improvement expenditures for all funds.

4. ***Other Special Purpose Reserves:*** The Board may, at its discretion, set aside reserves for a special project or purchase.

Restricted Reserves

1. Reserves for Endowments:

Ensures there will be resources available to maintain the cemetery in the future. The establishment and management of an endowment care program is mandated by the California Health and Safety Code. It is our objective to care for and maintain our cemetery in a manner in which the community can take pride. We set aside more than the minimum required by law, to ensure that essential services are provided at the standards you expect and to which you are entitled. Regular care and maintenance activities include: mowing, string trimming, pruning trees and shrubs, repairing and expanding irrigation systems, roads and drainage systems, etc.

Recommendation:

Maintain endowment principal amounts collected in accordance with District policies and adopted periodically by the Board as a part of the annual budget process and recommendations from fee and endowment studies.

Reserve Procedures

- The Finance Department will perform a periodic reserve review to be submitted to the General Manager and Board of Directors.
- In addition, a reserve review will be required when a major change in conditions threatens the reserve levels established by this policy.
- The periodic review determines if the funding levels are still appropriate and aligned with Board goals and objectives.
- During the annual budget process, staff will recommend approval of the one-year capital improvement budget. If adequate funding is not available, the CIP reserve funds will be used.
- If the balance in any reserve category falls below the minimum targeted reserve level for two consecutive years, the Board of Directors will strive to adopt a 5-year plan that includes a strategy to build the reserves back to the minimum targeted levels over the following five years.