

CITY OF ROCHELLE

CATEGORY: FINANCE

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TITLE WATER UNRESTRICTED CASH RESERVE POLICY

EFFECTIVE: JANUARY 23, 2017

SUPERCEDES: None

I. INTRODUCTION & PURPOSE

The purpose of the Water Fund Balance and Unrestricted Cash Reserve Policy is to maintain an adequate amount of reserves to protect Rochelle Municipal Utilities Water ability to provide reliable water service during periods of cost uncertainties, reductions in sales due to weather or a sluggish economy, volatile energy prices and rising capital improvement costs while maintaining stable rates. It is important for RMU Water to maintain the financial flexibility to smooth rate increases.

Rochelle Municipal Utilities (“RMU”) is a department of the City of Rochelle and manages the City’s advanced communication services, water, wastewater and electric utilities. RMU provides high quality and reliable services to over 7,000 metered electric customers and approximately 3,600 metered water customers throughout the Rochelle area.

RMU is governed by the City Manager and City Council. The City Council sets financial management policies, as recommended by the Utility Advisory Board (the “Board”). This Cash Reserve Policy (the “Policy”) is designed to establish guidelines to ensure the fiscal stability of RMU Water and provide guidance to the City Finance Director and RMU Water staff in the management of its finances.

Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the City is committed to maintaining the long- run fiscal strength of RMU Water. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital and capital improvements, are consistent with best practices in the utility industry and are important to RMU Water as they help to:

- Maintain the short-term and long-term financial health of RMU Water.
- Maintain stable rates for customers and help ensure manageable rate increases.
- Fund unanticipated cost contingencies.
- Ensure funds exist for system improvements.
- Ensure cash exists for the timely payment of bills.
- Act as a significant positive credit factor in bond ratings.

II. UNRESTRICTED, UNDESIGNATED RESERVE POLICY

Undesignated reserves are the remaining unrestricted reserves that may be used for any lawful purpose and have not been designated for specific capital and operating purposes. The following Unrestricted, Undesignated Reserve Policy addresses the levels, use and replenishment of this type of unrestricted reserves.

Appropriate target minimum levels of unrestricted, undesignated reserves as prescribed below.

Overall Policy Statement

RMU Water will have sufficient unrestricted, undesignated reserves to maintain or improve its credit ratings; ensure that operating and maintenance costs will be paid in a timely manner, to pay debt service obligations, and to invest in needed capital improvements and equipment replacement on a timely basis. In addition, RMU Water will maintain sufficient reserves to minimize rate increases due to market volatility, weather impacts on demands, emergencies (such as natural disasters), and regulatory changes.

- Definition and Purpose: Ensures sufficient resources to pay budgeted operating and maintenance expenses recognizing the timing differences between payment of expenditures and receipt of revenues.
- Target (Minimum) Level:
 - Equal to 365 days of operating and maintenance expenses based on the most recent audited financial statements.
- Events or Conditions Prompting Use of the Reserve: This Reserve may be routinely used by RMU Water to cover temporary cash flow deficiencies caused by timing differences between revenues and incurring expense obligations and unexpected increases in operating expenses.

III. Replenishment of Reserves

Reserve levels below the minimum targeted reserves would leave RMU Water exposed to significant operational risks. Should RMU Water draw down reserves below the minimum targeted level, RMU Water will implement plans to return reserves to their minimum targeted levels within three years. Such plans will be provided within twelve (12) months.

IV. Reporting and Oversight

Reserve levels will be monitored during the fiscal year and reported in the monthly and quarterly financial reports. The reserve target (minimum) will be analyzed annually and an over/under reserve determination shall be made in conjunction with year-end financial results. These results will be reported to the Board and City Council as part of the year-end financial report presentation. Should undesignated reserve levels need adjustment due to new risk factors due to changes in the industry; these will be brought to the Board and City Council as part of the year-end report.

The Policy will be reviewed annually, and updated (at a minimum once every three years) if there are material changes in the risk exposures or new conditions that require changes in reserve levels.

V. Conclusion

This Policy provides directives to RMU Water management and staff for decisions and recommendations related to the financial profiles of RMU Water.

In its most abbreviated form, the Policy sets targets for reserve balances based on the risk profiles of the Water utility individually and establishes tolerable maximums. The Policy also provides recommended actions when reserves deviate from the target levels.