

Water Finance Conference 2022

Cash reserve strategies and policies

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INTRODUCTION

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Cash reserves

- Current expenses
- Principal and interest on outstanding bonds
- Provide for variability in revenues and expenses
- Timing differences
- Contingencies



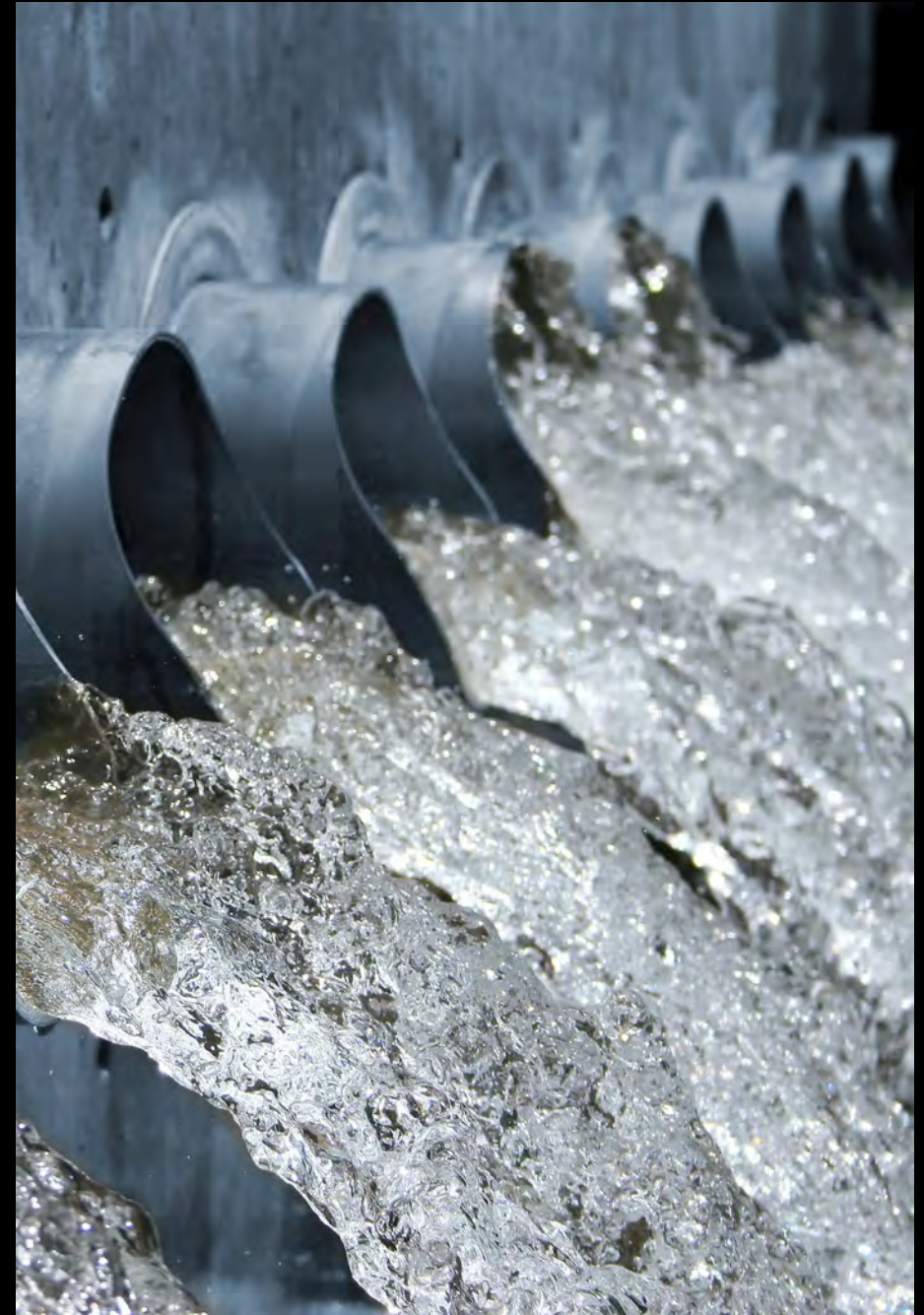


Legally required reserves

- Required by bond covenants
 - Debt service reserves
 - Days cash reserves
 - Operating reserves
- Required as condition of State Revolving Loans
- Required by other

Variability in annual revenue stream

- Monthly sales volume variability
- Variability in revenue from fees related to growth and development
- Variability in revenues received from other agencies (transfer payments)
- Investment interest rate variability



Variability in annual expenses

Monthly utility
consumption
variability

Variability
chemicals costs

Variability in
repair and
maintenance
expenses

Principal and
interest
payments

Timing of
capital
expenses

Transfer
payments to
other agencies

Variability in service demands

- Precipitation variability
- Temperature variability
- Climate changing events
- Growth and development
- Customer initiated demand changes (reduction in consumption related to business cycle or conservation measures)





Age and condition of fixed assets

- Unanticipated asset failure
- Increasing maintenance costs as asset ages
- Non-revenue water related to asset condition
- Increased I/I costs
- Increased operating cost related to condition of fixed assets



Anticipated future capital needs

Capital
improvement
plan


Asset
renewal and
replacement

Regulatory
compliance

Resiliency

Capacity needs

 Set aside system development charge revenues

 Use for capacity related improvements to decrease future debt

 Growth pays for growth



Tolerance for risk

- Reluctance to increase rates to build cash reserves
- Willingness to finance capital needs and pay interest costs
 - Unexpected asset failure
 - Regulatory compliance
 - Capital improvement plan
- Willing to accept operating risks related to revenue and expense variability



Number of relatively large customers

- Customers who consume large amounts of services e.g., 10% or more of water or sewer service demand
 - Shut down
 - Moved out of service area
 - New processes and equipment that significantly reduce consumption
- Unable to shed costs fast enough to cover revenue losses

Bond rating agency metrics

- Day cash requirement
- Operating reserves
- Replacement reserves
- Debt service reserves
- Debt service coverage requirements
- Long range financial plan





Cash reserves

- Few prescribed formulas
- Cash reserves vary considerably
- Level should be established based on careful analysis of the factors discussed
- Absent any other compelling reason, the minimum should be 90 days of operating expenses and next year's debt service

Cash reserves (cont'd)

- Capital improvement reserves – equal to depreciation expense or one year's CIP
- Difficult to have too much cash – future costs of infrastructure replacements
- Keep sufficient cash balances – Cash is king!



An aerial view of a city at dusk or dawn, with a blue color palette. Overlaid on the city are several glowing white arcs that represent a network or data connections. The arcs originate from various points across the city and converge towards a central point. The background shows a dense urban landscape with numerous buildings and a skyline in the distance.

Questions?
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