

DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: 11/16/2011

Board Item: 2-C-2

Denver Water Cash Reserve Policy and Investment Balance Targets

Action by Consent

Action

Information

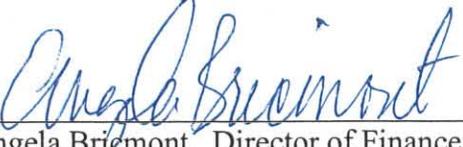
Denver Water treasury staff has been reviewing the Board's cash reserve practice in coordination with representatives from the Finance Division and the Board's Financial Advisor, Piper Jaffray. The discussion has been focused on setting adequate cash reserve targets, while ensuring consistency with the Charter and industry best practices.

Section 10.1.9 of the Charter authorizes the Board to charge rates sufficient to "...pay for operation, maintenance, reserves, debt service, additions, extensions, betterments, including those reasonably required for the anticipated growth of the Denver metropolitan area...and to provide for the accumulation of reserves for improvements of such magnitude that they cannot be acquired from the surplus revenues of a single year."

The practice has been to maintain reserves at the end of each budget year that are sufficient to provide 25% of the next year's operating costs, 50% of replacement capital and equipment purchases, one year of debt service, and a 5% self-insurance reserve. This practice, while mentioned in the annual Budget Book, has never been documented in a formal policy. Formalization of cash reserve policies has been considered an important objective, especially given the Board's desire to maintain a high credit rating in order to ensure debt capital availability at the lowest possible cost.

The proposed Policy contains descriptions of reserve types, target levels, events or conditions prompting the use of the reserves and includes periodic review dates for determination of balances. The proposed Cash Reserve Guideline is based upon the Policy and will be used as a part of the financial planning process.

The objective of this presentation is to seek input from the Commissioners before finalizing the policy, which will be submitted for Board approval at the December 14, 2011 regular meeting.


Angela Brimont, Director of Finance

Respectfully submitted,


James S. Lochhead, CEO/Manager

Approvals:


for Patricia Wells, General Counsel