

**Orange County Sanitation District
Reserve Summary - FY 2023-24**

Orange County Sanitation District (OC San) has a Board of Directors Reserve Policy that sets forth seven criteria to be used to determine its reserve level. As part of the OC San financial and operating process, we have developed a Reserve Policy which governs the establishment of our reserve level and the use of those funds. To ensure an adequate and diverse reserve policy, we have established seven different criteria. **These are not seven different reserves, but seven criteria used to set the total reserve level.** Reserves can only be used with the approval of the Board of Directors. Below is a brief summary of the OC San Reserve Criteria.

Reserve Policy Summary

Non-Discretionary

- 1) Debt Covenants and Other Requirements – Required by OC San bondholders – \$76 million – RESTRICTED**
This level is set by various bond covenants. As OC San issues debt, it is required to maintain certain levels of reserves held specifically for repayment of that debt and cannot be reduced or used prior to repayment of all outstanding debt issuances.
 - 2) “Dry Period” – Property Tax Payments – 50% of Operating Costs – \$108 million**
The largest portion of OC San revenues are user fees, approximately \$325 million. These fees are listed on and collected through the County property tax bill. Since we receive payments twice each year, we hold funds in reserve specifically to pay operating expenses pending receipt of those payments.
 - 3) “Dry Period” – Property Tax Payments – 100% of August Debt Service Costs – \$19 million**
The largest portion of OC San revenues are user fees, approximately \$325 million. These fees are listed on and collected through the County property tax bill. Since we receive payments twice each year, we hold funds in reserve specifically to pay debt service pending the receipt of those payments.
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Discretionary

- 4) Operating Budget – 10% of the total Operating Budget as a Contingency – \$21 million**
We hold ten percent of our operating budget as an operating contingency for non-recurring and unanticipated expenditures.
- 5) Capital Improvement Budget – 50% of the average 10-year CIP Program – \$153 million**
OC San currently has a ten-year, \$3.1 billion Capital Improvement effort. We hold the equivalent of 5% of that total as a contingency specifically related to these Capital Improvement Program efforts.
- 6) Rehabilitation and Refurbishment – \$75 million**
In 2002, OC San established a reserve level related to rehabilitation efforts at \$50 million based on the rehabilitation or replacement costs at that time. Although the total costs for rehabilitation or replacement has increased substantially since 2002 as a result of the move to Full Secondary Treatment and the Construction of GWRS, this reserve guideline has been increased to \$75 million. It will continue to increase 2% annually.
- 7) Catastrophic loss / Self-insurance – \$100 million**
OC San is Self-Insured for Catastrophic Loss. \$100 million of OC San’s total reserves are related to holding funds for this category. Although OC San now has almost \$12 billion in asset replacement value and this level has been increased, it is potentially under-funded.

Current FY 2023-24 Reserve Policy Requirement \$552 million