Madison Metropolitan Sewerage District  
Commission Policy Statement  
Fund Reserves

POLICY OBJECTIVE:  
The district’s reserves policy is intended to ensure that the district has adequate working capital to meet financial demands of unforeseen circumstances, provide adequate liquidity to support efficient operations and secure debt obligations.

POLICY STATEMENT:  
The district will maintain reserves in each of its funds as delineated below. In the event that circumstances necessitate the use of available reserves in any of its funds, the district will restore the designated reserve amount within one to three years of its depletion below the targeted minimum end-of-year reserve level.

I. Operating Fund Reserves – the district will maintain an end-of-year minimum balance in its operating fund not less than the sum of:

   A. Operating expense reserves to cover 180 days of budgeted operating expenses. In addition, the commission authorizes the budgeting of reserves up to 210 days;

   B. the equipment replacement fund\(^1\) requirements of the Wisconsin Clean Water Fund (CWF) Program; and

   C. any amounts set aside for designated purposes approved by the commission.

Operating expense reserves in excess of 210 days shall be used for one-time expenses and not for recurring operating expenses in order to avoid pressure on future budgets. When budgeting for the use of reserves, the commission will consider options in this order: (1) contributions to the equipment replacement fund; (2) transfers to the capital projects fund; (3) transfers to the debt service fund; (4) funding one-time expenditures; and (5) a buy-down of the required service charge revenues.

The primary purpose of maintaining operating expense reserves to cover between 180 and 210 days is to protect the district from unpredictable revenue fluctuations.

Operating expenses include recurring operating budget expenditures other than debt service obligations and amounts such as contributions to reserves and one-time transfers to the capital projects fund.

\(^1\) The district maintains an equipment replacement fund for unbudgeted emergency repair and replacement as restricted funds of the operating fund and provides for regular equipment replacement requirements through operating fund budgeting.
II. **Capital projects fund reserves** – the district will target a minimum end-of-year balance in its capital projects fund of the greater of $3 million dollars or 10 percent of the planned capital project expenditures for the forthcoming fiscal year.

III. **Debt service fund reserves** – the district will maintain a minimum debt service fund balance as prescribed by the terms of its current and projected Clean Water Fund and other indebtedness obligations. Balances in excess of minimum requirements, due to transfers, interest accruals or debt retirements, may be applied to district debt obligations.

None of the specific provisions of this statement shall be interpreted to require actions that will frustrate accomplishment of the stated policy objective.

Adopted by commission action on June 13, 2013  
Amended by commission action on October 12, 2017