



November 7, 2024

TO: LOCSD Board of Directors
FROM: Ron Munds, General Manager
SUBJECT: **Agenda Item 7B – 11/07/2024 Board Meeting**
Proposed Changes to Reserve Policies

STAFF RECOMMENDATION:

President
Marshall E. Ochylski

Vice President
Christine M. Womack

Directors
Charles L. Cesena
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General Manager
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Motion: I move that the Board

1. Tentatively approve the changes to the Reserves Policies as presented or as amended; and

2. Direct staff to bring back the amended Reserves Policies for adoption at the December 2, 2024 Board meeting.

DISCUSSION

Background

The District's original reserve policies were adopted in 2006 (Resolution 2006-23 attached). The policies established encumbered fund balances for each fund to provide a protected source of funding for operational, emergency, expansion and capital replacement needs of the District. The policies were amended in 2007 (Resolution 2007-24) to change the funding goals for each fund. In 2012, the reserve policies were significantly amended to add more specific language for the funding goals for Funds 100/Administration, 301/Fire, 500/Water, 650/Solid Waste and 800/Drainage (Resolution 2012-09).

In 2016, the Board adopted a resolution (Resolution 2016-14 attached) that appears to have amended the 2007 reserve policies since the format and language in both are similar. The 2007 policies are referenced in the 2016 resolution and there are no references to the 2012 reserve policies in the 2016 resolution. It is staff's opinion that the 2012 policies better reflect how the District has been operating and accounting for reserves across all funds and developed the proposed policies using the 2012 policies as a basis for the updates.

1.A Fund 100 – Administration Recommended Updates

- In Section 1.A.1, the original 2006 reserve policies refer to an Administration reserve but did not identify a funding goal. The 2012 policy established a General Contingency and Information Technology (IT) reserves but did not specify the funding goal amount for each. Instead, there is a maximum combined funding goal for \$200,000.

- Staff recommend that the IT reserve be eliminated and that there be a General Contingency reserve which funds acquisitions and upgrades

needed to support the centralized services to all the funds of the District. It is also recommended that the maximum funding goal be \$50,000. The current combined balances in General Contingency and IT reserves are \$41,659.88.

- Also, Section 1.A.2 dealing with a reserve for septic pumping and maintenance states that the policy should sunset once the wastewater project is built so it is deleted.

1.B Fund 301 – Fire Recommended Updates

Currently, there are three reserve categories in the Fund 301 policy. The following are the proposed changes to those categories.

1.B.1 Vehicle & Equipment Replacement

- Increasing the baseline funding to \$130,000. This change was made during the 2024-25 budget process.
- Adding the base inflationary value at 5% which is consistent with the increased in costs for emergency vehicles.
- Changing the responsibility for updating the replacement schedule to the General Manager.
- Add a statement that the reserve amount will be reduced when vehicles and equipment are purchased.

1.B.2 Capital Outlay Reserve

- Add a statement that during years where there are surplus funds, allocate the surplus to the Capital Outlay Reserve. The funding goal is \$5 million; the current balance is \$540,562.42.

1.B.3 General Contingency Reserve

- Deletion of the reference to the fund's operating and maintenance budget in the policy. For reference, 15% of the approximate O&M budget of \$3.45 million would equate to be \$517,500 this Fiscal Year; the current balance is \$583,225.51.

1.C Fund 500 – Water Recommended Updates

Currently, there are six reserve categories in the Fund 500 policy. The following are the proposed changes to those categories.

1.C.1 Rate Stabilization

- Delete Section 1.ii- the fee waiver or reductions referenced in this section are not a realistic reason to utilize the rate stabilization funds.
- The maximum funding goal under 10% of the operations and maintenance budget (\$2 million) is estimated at \$200,000; the current balance is \$158,456.

1.C.2 General Water Contingency Reserve

- In 2017, the 2016 policy for this reserve category was amended to reflect the annual appropriation of \$57,000. This change is carried over to the proposed reserve policy since that has been the practice since 2017. The funding goal is 60% of the water operation

and maintenance budget which would be approximately \$1,200,000. The current reserve balance is \$756,183.00.

1.C.3 Water Capital Outlay Reserve

- The annual funding goal of \$150,000 and the cumulative funding goal of \$470,000 are outdated now based on current conditions. The draft language is a result of past water rate setting efforts. During the last water rate analysis, the annual funding goal was set at \$800,000 to fund projects in the District's five-year capital improvement plan plus the estimated cost of operations and maintenance. This was approved by the Board during the budget process. The proposed language provides flexibility for the Board to set an annual funding goal as part of any future water rate setting study. This will also allow for changing capital project priorities and the ability to tailor the funding goal to change in revenue and expense projections.
- Staff also recommend adding the long-term goal of a minimum reserve balance of \$1,000,000 for unforeseen capital expenses. This was discussed during the 2021 water rate setting study as a prudent amount since capital project costs have risen significantly over the past five years recognizing that any emergency repairs could require significant financial resources. The current amount in the reserve is \$1,999,562.85.

1.C.4 Water Quality Reserve

- The Water Quality Reserve was created using funds from a settlement with an oil company associated with groundwater contamination from leaking gas tanks. To staff's knowledge, the reserve has not been utilized for many years. It is recommended the reserve be eliminated and the funds transferred to other existing reserves like Capital Outlay and/or Rate Stabilization. The current amount in the reserve is \$91,517.27.

1.C.5 Water Conservation Reserve

- This reserve was created around 2008. At that time, the conservation program was just being initiated and there was no line item in the water fund budget to support the effort. Since that time, the water conservation program has been supported by an independent line item therefore eliminating the need for the reserve. It is recommended that the funds be transferred to another existing reserve. The current amount in the reserve is \$59,288.00.

1.C.6 Basin Management Reserve

- This reserve was established when the District was in the early stages of the litigation on limiting groundwater pumping in the Los Osos Groundwater Basin. Similar to the Water Quality and Water Conservation Reserves, the funds have not been utilized for many years and are now budgeted annually in the Fund 500 budget. It is recommended that the funds be transferred to another existing reserve. The current amount in the reserve is \$50,031.00.

If the Board agrees to the elimination of the three reserves identified, direction on where to distribute those funds will be needed.

Utilities Advisory Committee Recommendations

The Utilities Advisory Committee reviewed the proposed Fund 500 reserve policies and agreed with the general recommendations made by staff. They also talked about the distribution of the

reserve funds for the reserves being recommended for elimination. There was general agreement that the majority of the funds should go to the Capital Outlay Reserve with a portion going to the Rate Stabilization Reserve.

1.D Fund 650 – Solid Waste Recommended Updates

The current Fund 650 reserve goal is to provide enough revenue to operate the solid waste collection system for six months in the event of an unforeseen emergency that precludes the franchise hauler from being able to provide the service. It is staff's opinion that this is not a realistic scenario, i.e., the District taking over and operating collection system, to base the reserve's goal on. It is recommended that the goal be revised to reflect the responsibilities the District has to meet state mandates, provide public information and outreach to the community on solid waste reduction requirements, perform reviews of solid waste rate applications and administer the programs. Staff recommend that the maximum funding goal be \$200,000 and when the reserve fund balance is achieved, the Board considers the remaining unallocated funds (beyond the budgeted items) be used to provide financial relief to customers.

Section 4

Section 4 is being renamed to "Annual Allocation of Fund Balance", to reflect recommendations made to update other policies, mainly in Funds 301 and 500, to simplify the intent of the use of fund balance at the end of a fiscal year.

Section 5 – TRANSFERS

Minor revision to add a clarifying sentence to the existing language on transferring funds when it is determined a reserve is no longer required for its designated purpose.

Finance Advisory Committee Recommendations

The Finance Advisory Committee will review all the reserve policies at their November 4th meeting. Staff will provide an update to the Board from that meeting at the November 7th Board meeting.

Attachments

Redline version of the Reserve Policy
Clean version of the Reserve Policy
Resolution 2006-23
Resolution 2012-09
Resolution 2016-14

SECTION 1: RESERVE POLICIES

A. Administrative - Fund 100

1. ~~A General Contingency Reserve which for Information Technology is hereby created in the Administrative Fund. This Reserve~~ will fund acquisitions and upgrades of softwares, hardwares, equipment and systems that are used to provide centralized services to all funds of the District will not exceed \$50,000. This will be funded by total appropriation savings in the Administrative Fund at the close of each fiscal year ~~starting with fiscal year 2011/12~~ or as otherwise directed by the Board at the adoption of the annual budget. ~~The maximum funding goal is \$200,000. Once the reserve goal is met, any surplus will be credited back proportionally to the various funds.~~
2. ~~A Contingency Reserve for Septic System Pumping and Maintenance is established with annual funding of about \$17,300. This funding comes from general taxes originally used for drainage basin maintenance which is now funded by Drainage assessments. This reserve will sunset as soon as the sewer system being built by the County becomes operational.~~

B. Fire - Fund 301:

1. A Vehicle, ~~&~~ Equipment & Fire Engine Replacement Reserve shall be established for the orderly and timely replacement of emergency equipment, apparatus and accessories. The annual funding goal is equal to the amount of depreciation of replaceable equipment for the year increased by inflationary costs determined by the higher of an amount based on CPI change as per Section 3 or an amount based on industry trends on replacement values. During the years that appropriating the annual funding goal is not financially feasible, a ~~minimum—baseline~~ funding of ~~\$72,000~~130,000 is appropriated annually. Until such time that the maximum funding goal is reached, catch-up funding will be appropriated in any year whenever it becomes financially feasible. The maximum funding goal is for the reserves to be equal to the total accumulated depreciation of replaceable equipment increased by inflationary costs or 5%, whichever is higher, and is intended to approximate replacement costs in any given year. An vehicle, equipment and fire engine replacement schedule is prepared by the Fire ChiefGeneral Manager, with consultation from the Fire Chief, or his/her designee that will validate increases or decreases to the reserves funding as requested in the budget of the upcoming year in accordance with this section. Upon the purchase of a new vehicle, the Vehicle Reserve will be reduced by a corresponding amount. A comprehensive review of the adequacy of the reserve shall be completed at least every two years.
2. Capital Outlay Reserve shall be established for the replacement, upgrade, expansion or improvement of buildings, structures and facilities that are used by the department to house personnel or equipment. Funding goal is an annual appropriation of at least \$10,000, with a cumulative maximum goal of \$5 million. During years where there is a surplus of funds, allocate the surplus to the Capital Outlay Reserve.

- ~~3. A General Contingency Reserve shall be established to meet contingency expenditures resulting from natural disasters or from unforeseen circumstances. The annual funding goal for this reserve account is \$10,000 with a maximum cumulative goal of at least 15% of the Fire Fund's Operating and Maintenance annual budget, which on average amounts to about \$1.2 million.~~

~~4.3.~~

C. Water – Fund 500:

1. A Rate Stabilization Reserve shall be established to:
 - i. Equalize revenues should District income from the Utility billings decrease due to conservation efforts initiated by the District or by the public; and
 - ~~ii. Provide a funding source to offset operation and maintenance revenues associated with fee waivers or reductions approved by the District Board of Directors in accordance with District policies and procedures established pursuant to Government Code Section 61123).(d). Reserves in this category shall be funded by water sales revenues.~~

The funding goal of this Rate Stabilization Reserve shall be \$32,000 annually until such time as this Rate Stabilization Reserve reaches a total of ten (10%) percent of the total annual water Operation and Maintenance Budget as approved by the Board of Directors from time to time.

2. A General Water Contingency Reserve shall be established for Emergency Operations should a natural or other disaster occur that would temporarily interrupt the District's income from Utility bills, to repair District facilities, and to provide funding for unforeseen circumstances not covered by the District's Operation and Maintenance Budget. The funding goal of this reserve account is an annual appropriation of at least ~~\$25,000~~\$7,000 per year up to a maximum cumulative goal of sixty (60%) percent of the District's annual Operation and Maintenance Budget as approved by the Board from time to time.
3. A Water Capital Outlay Reserve will be established for the replacement of water infrastructure. The funding goal of the Water Capital Outlay Reserve is to fund the timely replacement of water infrastructure and facilities as referenced in the District's Water Master Plan or other subsequent water planning documents approved by the District. The annual funding goal of this reserve ~~will be determined during periodic water rate studies approved by the Board from time to time.~~is at least \$150,000 per annum, with a short-term cumulative funding goal of \$470,000 and The long-term cumulative funding goal is to maintain a minimum reserve balance of \$1,000,000 while also funding the equal to the total of needed capital improvement projects identified in the Water Master Planthe five-year Capital Improvement Plan approved by the Board annually.
- ~~4. A Water Quality Reserve shall be established to fund studies on the causes of pollution and contamination of the District's water supply, to mitigate the problem so as to continue delivery of safe drinking water and fund short-term and long-term solutions to prevent and mitigate water contamination problems in the future for the whole community. There is no annual funding set for this Reserve but will continue to exist only as~~

~~long as there is a balance in the settlement account of a water pollution case received in 2005. When the funds are exhausted, this Reserve will cease to exist.~~

~~5. A Water Conservation Reserve is established with an initial funding of \$25,000 in FY 2012/13. No annual funding for this reserve is set but will increase annually by the appropriation balance in the Water Conservation Program account (No. 7348) as of the end of each fiscal year. The cumulative funding goal of this reserve is \$100,000.~~

~~6. A Designation for Water Basin Management or ISJ Commitments is hereby established. This will be funded by any appropriation balances in account no. 9155, ISJ Costs Inter Agency Cost Sharing, remaining as of the end of each fiscal year that is not otherwise held in a Reserve for Encumbrance or Fund Reservation starting with the close of FY 2011/12. Initially, the cumulative funding goal of this Reserve is \$1 million.~~

D. Drainage - Fund 800:

1. A Drainage Capital Outlay Reserve fund shall be established for the replacement of equipment and facilities associated with the operation of District drainage services. The funding goal of this Capital Outlay Reserve will be at least \$10,000 per annum with a total funding goal of \$500,000. The total funding goal may be adjusted by the Board of Directors from time to time as part of the adoption of the annual budget. The maximum goal is set to a level that is sufficient to replace at least half of the drainage equipment and facilities at any point.
2. A General Contingency Reserve shall be established for contingency expenditures resulting from natural disasters or unforeseen circumstances. Funding goal for this reserve account is \$5,000 per annum with a cumulative funding goal of \$50,000. When this goal is reached, it shall be funded with an annual increase in accordance with the CPI index change as per Section 3 applied to the balance of this reserve as of the last audited fiscal year.

E. Solid Waste – Fund 650

1. General Contingency Reserves not to exceed \$ 2300,000 is established to cover state mandated regulatory requirements, subsequent expenditures and costs associated with administering the terms and conditions in the District's franchise agreement for solid waste hauling services and fund any future solid waste programs or services approved by the Board. ~~estimated to equal no more than six months of operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted at all times.~~ Annual appropriation for this reserve will be no more than \$ ~~5075,000~~ 5075,000 annually until the maximum cumulative reserve goal of ~~\$2300,000~~ 2300,000 is reached at which time funding will be equal to the change in the CPI index as per section 3 applied to the balance of this reserve as of the last audited fiscal year.

- ~~4.2.~~ When the reserve fund balance is achieved, and upon the Board's discretion, the remaining unallocated funds may be utilized for programs to provide customer financial relief during the solid waste rate setting process or other rate relief opportunities.

SECTION 2: RESERVE FUNDING INCLUDING INVESTMENT INCOME

Reserve funding sources include rates, charges, special taxes, and property taxes collected by the District related to the services referenced in Section 1 of this Resolution.

All interest and other investment income earned on funds held in reserves or designations will be added to the associated Reserve/Designation Balance. Reserves and Designations that have reached their cumulative funding goal will continue to increase with investment income unless the Board approves a specific amount cap to a specific reserve or designation.

In any year where there is a major shortfall in revenues due to unusual circumstances which may or may not be under the control of the Board of Directors, funding for Reserves is held in abeyance and is subsidiary to the funding of Operations and Maintenance expenditure accounts. After the circumstance is resolved, funding for Reserves for all years that were not fully funded will be restored whenever feasible. A description of the unusual circumstance will be presented to the Board at the time the Proposed Budget or the Final Budget is presented along with a statement of the impact on the reserves funding goals.

SECTION 3: INCREASE FUNDING OF RESERVES EQUAL TO THE INCREASE IN THE CONSUMER PRICE INDEX (CPI)

Funding increases to Reserves on account of the change in CPI Index as used in Section 1 is computed as the percentage change in the average of the annual averages of the last calendar year over the prior calendar year using the Los Angeles-~~Riverside~~Long Beach-Orange-Anaheim CPI and the San Francisco-Oakland-~~San Jose-Hayward~~ CPI for all consumer items. This section will apply once certain reserves reach their maximum funding goal and is intended to bring the reserve in line with current values each year.

SECTION 4: ~~SPECIFIC ACCOUNTS THAT WILL AUTOMATICALLY GO TO RESERVES OR DESIGNATIONS~~ ANNUAL ALLOCATION OF FUND BALANCE

- ~~1. Appropriation balances of specific accounts, not otherwise held in a Reserve for Encumbrance or Fund Reservation, as of the end of each fiscal year will automatically roll over to the subsequent fiscal year as increases to the associated reserve/designation unless the Board directs otherwise during the adoption of the annual budget; these accounts are as follows:~~

- ~~a. Capital Outlay accounts~~
- ~~b. ISJ Charges~~
- ~~c. Water Conservation Program~~
- ~~d. Appropriation for Contingencies~~

The positive net fund balance at the end of each fiscal year will be allocated, by the Board, to other reserves within the originating budget.

- ~~2. Proceeds of sale of fixed assets will automatically roll over to the subsequent fiscal year as increases to the Vehicle or, Equipment or ~~Plant Replacement~~ Reserve if one exists or to the Capital Outlay Reserve unless the Board directs otherwise during the adoption of the annual budget.~~

SECTION 5: TRANSFERS

Pursuant to Government Code Section 61112(c), the District Board of Directors may only transfer reserve funds for purposes other than the purposes outlined in Section 1, above, by a four-fifths (4/5) vote of the total membership of the Board of Directors and upon a finding that the reserves are no longer required for the designated purpose. In this instance, the funding may then be allocated to another reserve within the originating fund. Reserve transfers are limited to funding shortfalls in other related budget categories of the particular service and to funding shortfalls in administrative services budget.

SECTION 1: RESERVE POLICIES

A. Administrative - Fund 100

1. General Contingency Reserve which will fund acquisitions and upgrades of software, hardware, equipment and systems that are used to provide centralized services to all funds of the District will not exceed \$50,000. This will be funded by total appropriation savings in the Administrative Fund at the close of each fiscal year or as otherwise directed by the Board at the adoption of the annual budget. Once the reserve goal is met, any surplus will be credited back proportionally to the various funds.

B. Fire - Fund 301:

1. A Vehicle, Equipment & Fire Engine Replacement Reserve shall be established for the orderly and timely replacement of emergency equipment, apparatus and accessories. The annual funding goal is equal to the amount of depreciation of replaceable equipment for the year increased by inflationary costs determined by the higher of an amount based on CPI change as per Section 3 or an amount based on industry trends on replacement values. During the years that appropriating the annual funding goal is not financially feasible, a baseline funding of \$130,000 is appropriated annually. Until such time that the maximum funding goal is reached, catch-up funding will be appropriated in any year whenever it becomes financially feasible. The maximum funding goal is for the reserves to be equal to the total accumulated depreciation of replaceable equipment increased by inflationary costs or 5%, whichever is higher, and is intended to approximate replacement costs in any given year. A vehicle, equipment and fire engine replacement schedule is prepared by the General Manager, with consultation from the Fire Chief, or his/her designee that will validate increases or decreases to the reserves funding as requested in the budget of the upcoming year in accordance with this section. Upon the purchase of a new vehicle, the Vehicle Reserve will be reduced by a corresponding amount. A comprehensive review of the adequacy of the reserve shall be completed at least every two years.
2. Capital Outlay Reserve shall be established for the replacement, upgrade, expansion or improvement of buildings, structures and facilities that are used by the department to house personnel or equipment. Funding goal is an annual appropriation of at least \$10,000, with a cumulative maximum goal of \$5 million. During years where there is a surplus of funds, allocate the surplus to the Capital Outlay Reserve.
3. A General Contingency Reserve shall be established to meet contingency expenditures resulting from natural disasters or from unforeseen circumstances. The annual funding goal for this reserve account is \$10,000 with a maximum cumulative goal of at least 15% of the Fire Fund's Operating and Maintenance annual budget.

C. Water – Fund 500:

1. A Rate Stabilization Reserve shall be established to:
 - i. Equalize revenues should District income from the Utility billings decrease due to conservation efforts initiated by the District or by the public; and

The funding goal of this Rate Stabilization Reserve shall be \$32,000 annually until such time as this Rate Stabilization Reserve reaches a total of ten (10%) percent of the total annual water Operation and Maintenance Budget as approved by the Board of Directors from time to time.

2. A General Water Contingency Reserve shall be established for Emergency Operations should a natural or other disaster occur that would temporarily interrupt the District's income from Utility bills, to repair District facilities, and to provide funding for unforeseen circumstances not covered by the District's Operation and Maintenance Budget. The funding goal of this reserve account is an annual appropriation of at least \$57,000 per year up to a maximum cumulative goal of sixty (60%) percent of the District's annual Operation and Maintenance Budget as approved by the Board from time to time.
3. A Water Capital Outlay Reserve will be established for the replacement of water infrastructure. The funding goal of the Water Capital Outlay Reserve is to fund the timely replacement of water infrastructure and facilities as referenced in the District's Water Master Plan or other subsequent water planning documents approved by the District. The annual funding goal of this reserve will be determined during periodic water rate studies approved by the Board from time to time.. The long-term cumulative funding goal is to maintain a minimum reserve balance of \$1,000,000 while also funding the capital improvement projects identified in the the five-year Capital Improvement Plan approved by the Board annually.

D. Drainage - Fund 800:

1. A Drainage Capital Outlay Reserve fund shall be established for the replacement of equipment and facilities associated with the operation of District drainage services. The funding goal of this Capital Outlay Reserve will be at least \$10,000 per annum with a total funding goal of \$500,000. The total funding goal may be adjusted by the Board of Directors from time to time as part of the adoption of the annual budget. The maximum goal is set to a level that is sufficient to replace at least half of the drainage equipment and facilities at any point.
2. A General Contingency Reserve shall be established for contingency expenditures resulting from natural disasters or unforeseen circumstances. Funding goal for this reserve account is \$5,000 per annum with a cumulative funding goal of \$50,000. When this goal is reached, it shall be funded with an annual increase in accordance with the CPI index change as per Section 3 applied to the balance of this reserve as of the last audited fiscal year.

E. Solid Waste – Fund 650

1. General Contingency Reserves not to exceed \$ 200,000 is established to cover state mandated regulatory requirements, subsequent expenditures and costs associated with administering the terms and conditions in the District's franchise agreement for solid waste hauling services and fund any future solid waste programs or services approved by the Board. Annual appropriation for this reserve will be no more than \$ 75,000 annually until the maximum cumulative reserve goal of \$200,000 is reached at which time funding will be equal to the change in the CPI index as per section 3 applied to the balance of this reserve as of the last audited fiscal year.
2. When the reserve fund balance is achieved, and upon the Board's discretion, the remaining unallocated funds may be utilized for programs to provide customer financial relief during the solid waste rate setting process or other rate relief opportunities.

SECTION 2: RESERVE FUNDING INCLUDING INVESTMENT INCOME

Reserve funding sources include rates, charges, special taxes, and property taxes collected by the District related to the services referenced in Section 1 of this Resolution.

All interest and other investment income earned on funds held in reserves or designations will be added to the associated Reserve/Designation Balance. Reserves and Designations that have reached their cumulative funding goal will continue to increase with investment income unless the Board approves a specific amount cap to a specific reserve or designation.

In any year where there is a major shortfall in revenues due to unusual circumstances which may or may not be under the control of the Board of Directors, funding for Reserves is held in abeyance and is subsidiary to the funding of Operations and Maintenance expenditure accounts. After the circumstance is resolved, funding for Reserves for all years that were not fully funded will be restored whenever feasible. A description of the unusual circumstance will be presented to the Board at the time the Proposed Budget or the Final Budget is presented along with a statement of the impact on the reserves funding goals.

SECTION 3: INCREASE FUNDING OF RESERVES EQUAL TO THE INCREASE IN THE CONSUMER PRICE INDEX (CPI)

Funding increases to Reserves on account of the change in CPI Index as used in Section 1 is computed as the percentage change in the average of the annual averages of the last calendar year over the prior calendar year using the Los Angeles-Long Beach-Anaheim CPI and the San Francisco-Oakland-Hayward CPI for all consumer items. This section will apply once certain reserves reach their maximum funding goal and is intended to bring the reserve in line with current values each year.

SECTION 4: ANNUAL ALLOCATION OF FUND BALANCE

The positive net fund balance at the end of each fiscal year will be allocated, by the Board, to other reserves within the originating budget.

Proceeds of sale of fixed assets will automatically roll over to the subsequent fiscal year as increases to the Vehicle or Equipment Reserve if one exists or to the Capital Outlay Reserve unless the Board directs otherwise during the adoption of the annual budget.

SECTION 5: TRANSFERS

Pursuant to Government Code Section 61112(c), the District Board of Directors may only transfer reserve funds for purposes other than the purposes outlined in Section 1, above, by a four-fifths (4/5) vote of the total membership of the Board of Directors and upon a finding that the reserves are no longer required for the designated purpose. In this instance, the funding may then be allocated to another reserve within the originating fund. Reserve transfers are limited to funding shortfalls in other related budget categories of the particular service and to funding shortfalls in administrative services budget.

DATE: August 31, 2006
AGENDA ITEM: #1
 APPROVED
 DENIED
 CONTINUED

RESOLUTION 2006 – 23
A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
ESTABLISHING RESERVES ACCOUNT BALANCES BY FUND

WHEREAS, it is prudent to establish encumbered fund balances to provide a protected source of funding for operational needs, emergency needs, expansion needs, capital replacement needs, and fire and rescue needs of the Los Osos Community Services District (District);

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE, DETERMINE AND ORDER AS FOLLOWS:

SECTION 1. Definitions. As used in this Resolution, the following terms shall have the following meaning:

- (A) **Cash Flow Reserves Accounts.** Provides for funding coverage between receipt of revenues with the noted primary revenue source by fund as follows:
- Administrative Fund – Property Taxes
 - Bayridge Estates Fund – Assessments & Property Taxes
 - Fire Fund – Property/Special Taxes
 - Vista de Oro Fund – Assessments
 - Water Fund – User Fees
 - Wastewater Fund -- Assessments, Indebtedness and User Fees
 - Solid Waste Fund – Franchise Fees
 - Cabrillo Fund – Assessments and Property Taxes
 - Drainage Fund – Special Taxes
 - Parks and Recreation Fund – Interest
- (B) **Contingency Reserves Accounts.** Provides for unforeseen expenditures, related to daily operations not otherwise budgeted with the noted primary revenue source by fund as follows:
- Administrative Fund – Property Taxes
 - Bayridge Estates Fund – Assessments and Property Taxes
 - Fire Fund – Property/Special Taxes
 - Vista de Oro Fund – Assessments
 - Water Fund – User Fees
 - Wastewater Fund – Assessments, Indebtedness, and Development Fees
 - Solid Waste Fund -- Franchise Fees

- Cabrillo Fund – Assessments and Property Taxes
 - Drainage Fund – Special Taxes
 - Parks and Recreation Fund – Interest
- (C) **Expansion Reserves Accounts.** Provides a reserve for future major construction to increase District service capacity as required by District growth with the noted primary revenue source by fund.
- Administrative Fund – Property Taxes
 - Bayridge Estates Fund – Assessments and Property Taxes
 - Fire Fund – Property/Special Taxes
 - Vista de Oro Fund – Assessments
 - Water Fund – User Fees
 - Wastewater Fund – Assessments, Indebtedness, and Development Fees
 - Solid Waste Fund – Franchise Fees
 - Cabrillo Fund – Assessments and Property Taxes
 - Drainage Fund – Special Taxes
 - Parks and Recreation Fund – Interest
- (D) **Replacement Reserve Accounts.** Provides a reserve for the replacement of depreciated District facilities, structures and/or apparatus/equipment with the noted primary revenue source by fund:
- Administrative Fund – Property Taxes
 - Bayridge Estates Fund – Assessments and Property Taxes
 - Fire Fund – Property/Special Taxes
 - Vista de Oro Fund – Assessments
 - Water Fund – User Fees
 - Wastewater Fund – Assessments, Indebtedness, and Development Fees
 - Solid Waste Fund – Franchise Fees
 - Cabrillo Fund – Assessments and Property Taxes
 - Drainage Fund – Special Taxes
 - Parks and Recreation Fund – Interest
- (E) **Fire and Rescue Account.** Provides a reserve for a major fire or rescue event in regards to the Fire Fund with property taxes and special taxes as the source.
- (F) **Water Quality Trust Fund.** Encumbers the net proceeds of the Chevron MtBE Lawsuit Settlement for future water department water quality projects to be spent only upon specific approval by the Board for a water quality project.
- (G) **Fire Public Facility Fee Trust Fund.** Encumbers the net proceeds of the Fire Public Facilities Fee disbursements from SLO County for Fire Department Capital Improvements to be spent only upon specific approval by the Board for a Fire Department Capital Improvement projects

SECTION 2. There is hereby established the following balances in the following accounts operated by the District:

(A)	Fund 100	Administrative Fund Account Balances		
	1.	105	Cash Flow Reserve -	\$ 0
	2.	110	Contingency Reserve -	\$ 0
	3.	115	Expansion Reserve -	\$ 0
	4.	120	Replacement Reserve -	\$ 0
			Current Sub-Total -	\$ 0
(B)	Fund 200	Bayridge Estates Fund Account Balances		
	1.	205	Cash Flow Reserve -	\$ 20,000
	2.	210	Contingency Reserve -	\$ 20,000
	3.	215	Expansion Reserve -	\$ 0
	4.	220	Replacement Reserve -	\$ 21,000
			Current Sub-Total -	\$ 61,000
(C)	Fund 300	Fire Fund Account Balances		
	1.	305	Cash Flow Reserve -	\$120,000
	2.	310	Contingency Reserve -	\$100,000
	3.	315	Expansion Reserve -	\$ 0
	4.	320	Replacement Reserve -	\$140,000
	5.	325	Fire and Rescue Reserve -	\$200,000
	6.	330	Fire Public Facility Trust -	\$ 40,000
			Current Sub-Total -	\$600,000
(D)	Fund 400	Vista De Oro Fund Account Balances		
	1.	405	Cash Flow Reserve -	\$ 10,000
	2.	410	Contingency Reserve -	\$ 12,000
	3.	215	Expansion Reserve -	\$ 0
	4.	220	Replacement Reserve -	\$ 15,000
			Current Sub-Total -	\$ 37,000
(E)	Fund 500	Water Fund Account Balances		
	1.	505	Cash Flow Reserve -	\$ 400,000
	2.	510	Contingency Reserve -	\$ 600,000
	3.	515	Expansion Reserve -	\$1,000,000
	4.	520	Replacement Reserve -	\$1,000,000
	5.	530	Water Quality Trust -	\$ 500,000
			Current Sub-Total -	\$3,500,000

(F)	Fund 600	Wastewater Fund Account Balances		
	1.	605	Cash Flow Reserve -	\$ 0
	2.	610	Contingency Reserve -	\$ 0
	3.	615	Expansion Reserve -	\$330,000
	4.	620	Replacement Reserve -	\$ 0
			Current Sub-Total -	\$330,000
(G)	Fund 650	Solid Waste Fund Account Balances		
	1.	655	Cash Flow Reserve -	\$ 30,000
	2.	660	Contingency Reserve -	\$ 40,000
	3.	665	Expansion Reserve -	\$ 0
	4.	670	Replacement Reserve -	\$ 30,000
			Current Sub-Total -	\$ 100,000
(H)	Fund 700	Cabrillo Fund Account Balances		
	1.	705	Cash Flow Reserve -	\$ 10,000
	2.	710	Contingency Reserve -	\$ 25,000
	3.	715	Expansion Reserve -	\$ 0
	4.	720	Replacement Reserve -	\$ 25,000
			Current Sub-Total	\$ 60,000
(I)	Fund 800	Drainage Fund Account Balances		
	1.	805	Cash Flow Reserve -	\$ 20,000
	2.	810	Contingency Reserve -	\$ 24,000
	3.	815	Expansion Reserve -	\$ 0
	4.	820	Replacement Reserve -	\$ 20,000
			Current Sub-Total	\$ 64,000
(J)	Fund 900	Parks & Recreation Fund Account Balances		
	1.	905	Cash Flow Reserve -	\$ 0
	2.	910	Contingency Reserve -	\$ 0
	3.	915	Expansion Reserve -	\$ 0
	4.	920	Replacement Reserve -	\$ 0
	5.	930	Swimming Pool Trust Fund	\$ 265,000
			Current Sub-Total	\$ 265,000

SECTION 3. Fund balances shall be reviewed annually as part of the budget process and reserves will be revised as a function of the District's receipt of fees, taxes, and assessments from designated revenue sources.

SECTION 4. Subject to related District Policies the General Manager is authorized to make expenditures from the Cash Flow Reserve, Contingency Reserve, and Fire and Rescue Reserve Accounts.

SECTION 5. Subject to related District Policies the Board of Directors shall authorize expenditures and encumbrances from the Expansion Reserve and Replacement Reserve Accounts.

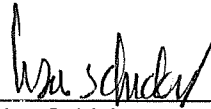
SECTION 6. The 2005 Reserve Resolution is hereby rescinded.

On the motion of Director TACKER, seconded by Director SCHICKER and on the following roll call vote, to wit:

AYES: **Directors**
NOES:
ABSENT:
CONFLICTS:

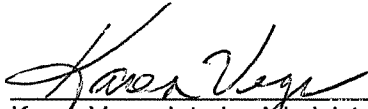
SENET, CESENA, TACKER, SCHICKER

The foregoing resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District this 31st day of August 2006.



Lisa Schicker
President, Board of Directors
Los Osos Community Services District

ATTEST:



Karen Vega, Interim Administrative Services Manager
And Deputy Secretary to the Board

RESOLUTION 2012 - 09

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
ESTABLISHING BUDGET RESERVE POLICIES**

WHEREAS, Community Services District Law is established in Section 61000 et seq. of the Government Code; and

WHEREAS, Government Code Section 61040(a) states, in relevant part, "a legislative body of five members known as the board of directors shall govern each district. The board of directors shall establish policies for the operation of the district"; and

WHEREAS, Government Code Section 61045(g) states, "the board of directors shall adopt policies for the operation of the district, including, but not limited to, administrative policies, fiscal policies, personnel policies, and the purchasing policies required by this division"; and

WHEREAS, Government Code Section 61110(b) states, in relevant part, "the board of directors may divide the preliminary budget into categories, including, but not limited to, the following: . . . (6) Designated reserve for capital outlay. (7) Designated reserve for contingencies"; and

WHEREAS, Government Code Sections 61112(a) and (c) state "(a) in its budget, the board of directors may establish a designated reserve for capital outlay and a designated reserve for contingencies. When the board of directors establishes a designated reserve, it shall declare the exclusive purposes for which the funds in the reserve may be spent. The funds in the designated reserve shall be spent only for the exclusive purposes for which the board of directors established the designated reserve. The reserves shall be maintained according to generally accepted accounting principles." And "(c) If the board of directors finds that the funds in a designated reserve are no longer required for the purpose for which it established the designated reserve, the board of directors may, by a four-fifths vote of the total membership of the board of directors, discontinue the designated reserve or transfer any funds that are no longer required from the designated reserve to the district's general fund"; and

WHEREAS, based on the Staff Report, staff presentation, and public comment, the Los Osos Community Services District ("District") Board of Directors finds that water, drainage, fire protection and waste disposal are vital services to protect the health, safety and welfare of District residents and customers; and

WHEREAS, based on the Staff Report, staff presentation, and public comment, the District Board of Directors further finds that these policies help protect the health, safety, and welfare of District residents and customers by establishing a financial plan to:

- A. Address unforeseen and unexpected contingencies of operating District facilities and equipment; and
- B. To timely fund the replacement of District facilities and equipment as they wear out; and

WHEREAS, the establishment of adequate reserves is critical to the successful and stable short and long term operation of the District, and

WHEREAS, pursuant to Community Services District Law, the District, by this Resolution, establishes reserve categories commencing with the adoption of the Fiscal Year 2010-2011 Budget for the District's fire services, water services, drainage services, and to establish the purposes for each of the reserve categories.

NOW THEREFORE, THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE, AND DETERMINE THAT:

SECTION 1: RESERVE POLICIES

A. Fire Department – Fund 301:

1. A Vehicle & Equipment Replacement Reserve shall be established for the orderly and timely replacement of emergency equipment, apparatus and accessories. The annual funding goal is equal to the amount of depreciation of replaceable equipment for the year increased by inflationary costs determined by the higher of an amount based on CPI change as per Section 3 or an amount based on industry trends on replacement values. During the years that appropriating the annual funding goal is not financially feasible, a minimum funding of \$72,000 is appropriated annually. Until such time that the maximum funding goal is reached, catch-up funding will be appropriated in any year whenever it becomes financially feasible. The maximum funding goal is for the reserves to be equal to the total accumulated depreciation of replaceable equipment increased by inflationary costs intended to approximate replacement costs in any given year. An equipment replacement schedule is prepared by the Fire Chief or his/her designee that will validate increases or decreases to the reserves funding as requested in the budget of the upcoming year in accordance with this section.
2. A Capital Outlay Reserve shall be established for the replacement, upgrade, expansion or improvements of buildings, structures and facilities that are used by the department to house personnel or equipment. Funding goal is an annual appropriation of at least \$10,000, with a cumulative maximum goal of \$5 million.
3. A General Contingency Reserve shall be established to meet contingency expenditures resulting from natural disasters or from unforeseen circumstances. Annual funding goal for this reserve account is \$10,000 with a maximum cumulative goal of at least 15% of the Fire Fund's Operating and Maintenance annual budget which on average amounts to about \$1.3 million.

B. Water Department – Fund 500:

1. A Rate Stabilization Reserve shall be established to:
 - i. Equalize revenues should District income from the Utility billings decrease due to conservation efforts initiated by the District or by the public; and

- ii. Provide a funding source to offset operation and maintenance revenues associated with fee waivers or reductions approved by the District Board of Directors in accordance with District policies and procedures established pursuant to Government Code Section 61123).(d). Reserves in this category shall be funded by water sales revenues.

The funding goal of this Rate Stabilization Reserve shall be \$32,000 annually until such time as this Rate Stabilization Reserve reaches a total of ten (10%) percent of the total annual water Operation and Maintenance Budget as approved by the Board of Directors from time to time.

2. A General Water Contingency Reserve shall be established for Emergency Operations should a natural or other disaster occur that would temporarily interrupt the District's income from Utility bills, to repair District facilities, and to provide funding for unforeseen circumstances not covered by the District's Operation and Maintenance Budget. The funding goal of this reserve account is an annual appropriation of at least \$25,000 per year up to a maximum cumulative goal of sixty (60%) percent of the District's annual Operation and Maintenance Budget as approved by the Board from time to time.
3. A Water Capital Outlay Reserve will be established for the replacement of water infrastructure. The funding goal of the Water Capital Outlay Reserve is to fund the timely replacement of water infrastructure and facilities as referenced in the District's Water Master Plan or other subsequent water planning documents approved by the District. The annual funding goal of this reserve is at least \$150,000 per annum with a short-term cumulative funding goal of \$470,000 and a long-term cumulative funding goal equal to the total of needed capital improvement projects identified in the Water Master Plan.
4. A Water Quality Reserve shall be established to fund studies on the causes of pollution and contamination of the District's water supply, to mitigate the problem so as to continue delivery of safe drinking water and fund short-term and long-term solutions to prevent and mitigate water contamination problems in the future for the whole community. There is no annual funding set for this Reserve but will continue to exist only as long as there is a balance in the settlement account of a water pollution case received in 2005. When the funds are exhausted, this Reserve will cease to exist.
5. A Water Conservation Reserve is established with an initial funding of \$25,000 in FY 2012/13. No annual funding for this reserve is set but will increase annually by the appropriation balance in the Water Conservation Program account (No. 7348) as of the end of each fiscal year. The cumulative funding goal of this reserve is \$100,000.
6. A Designation for Water Basin Management or ISJ Commitments is hereby established. This will be funded by any appropriation balances in account no. 9155, ISJ Costs- Inter-Agency Cost Sharing, remaining as of the end of each fiscal year that is not otherwise held in a Reserve for Encumbrance or Fund Reservation starting with the close of FY 2011/12. Initially, the cumulative funding goal of this Reserve is \$1 million.

C. Drainage – Fund 800:

1. A Drainage Capital Outlay Reserve fund shall be established for the replacement of equipment and facilities associated with the operation of District drainage services. The funding goal of this Capital Outlay Reserve will be at least \$10,000 per annum with a total funding goal of \$500,000. The total funding goal may be adjusted by the Board of Directors from time to time as part of the adoption of the annual budget. The maximum goal is set to a level that is sufficient to replace at least half of the drainage equipment and facilities at any point.
2. A General Contingency Reserve shall be established for contingency expenditures resulting from natural disasters or unforeseen circumstances. Funding goal for this reserve account is \$5,000 per annum with a cumulative funding goal of \$50,000. When this goal is reached, it shall be funded with an annual increase in accordance with the CPI index change as per Section 3 applied to the balance of this reserve as of the last audited fiscal year.

D. Solid Waste – Fund 650:

1. General Contingency Reserves not to exceed \$ 300,000 is established to cover expenditures estimated to equal no more than six months of operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted at all times. Annual appropriation for this reserve will be no more than \$ 50,000 annually until the maximum cumulative reserve goal of \$300,000 is reached at which time funding will be equal to the change in the CPI index as per section 3 applied to the balance of this reserve as of the last audited fiscal year.

E. Administrative Fund – Fund 100:

1. A Reserve for Information Technology is hereby created in the Administrative Fund. This Reserve will fund acquisitions and upgrades of softwares, hardwares and systems that are used to provide centralized services to all funds of the District. This will be funded by total appropriation savings in the Administrative Fund at the close of each fiscal year starting with fiscal year 2011/12 or as otherwise directed by the Board at the adoption of the annual budget. The maximum funding goal is \$200,000.
2. A Contingency Reserve for Septic System Pumping and Maintenance is established with annual funding of about \$17,300. This funding comes from general taxes originally used for drainage basin maintenance which is now funded by Drainage assessments. This reserve will sunset as soon as the sewer system being built by the County becomes operational.

SECTION 2: RESERVE FUNDING INCLUDING INVESTMENT INCOME

Reserve funding sources include rates, charges, special taxes, and property taxes collected by the District related to the services referenced in Section 1 of this Resolution.

All interest and other investment income earned on funds held in reserves or designations will be added to the associated Reserve/Designation Balance. Reserves and Designations that have reached their cumulative funding goal will continue to increase with investment income unless the Board approves a specific amount cap to a specific reserve or designation.

In any year where there is a major shortfall in revenues due to unusual circumstances which may or may not be under the control of the Board of Directors, funding for Reserves is held in abeyance and is subsidiary to the funding of Operations and Maintenance expenditure accounts. After the circumstance is resolved, funding for Reserves for all years that were not fully funded will be restored whenever feasible. A description of the unusual circumstance will be presented to the Board at the time the Proposed Budget or the Final Budget is presented along with a statement of the impact on the reserves funding goals.

SECTION 3: INCREASE FUNDING OF RESERVES EQUAL TO THE INCREASE IN THE CONSUMER PRICE INDEX (CPI)

Funding increases to Reserves on account of the change in CPI Index as used in Section 1 is computed as the percentage change in the average of the annual averages of the last calendar year over the prior calendar year using the Los Angeles-Riverside-Orange CPI and the San Francisco-Oakland-San Jose CPI for all consumer items. This section will apply once certain reserves reach their maximum funding goal and is intended to bring the reserve in line with current values each year.

SECTION 4: SPECIFIC ACCOUNTS THAT WILL AUTOMATICALLY GO TO RESERVES OR DESIGNATIONS

1. Appropriation balances of specific accounts, not otherwise held in a Reserve for Encumbrance or Fund Reservation, as of the end of each fiscal year will automatically roll over to the subsequent fiscal year as increases to the associated reserve/designation unless the Board directs otherwise during the adoption of the annual budget; these accounts are as follows:
 - a. Capital Outlay accounts
 - b. ISJ Charges
 - c. Water Conservation Program
 - d. Appropriation for Contingencies
2. Proceeds of sale of fixed assets will automatically roll over to the subsequent fiscal year as increases to the Vehicle, Equipment or Plant Replacement Reserve if one exists or to the Capital Outlay Reserve unless the Board directs otherwise during the adoption of the annual budget.

SECTION 5: TRANSFERS

Pursuant to Government Code Section 61112(c), the District Board of Directors may only transfer reserve funds for purposes other than the purposes outlined in Section 1, above, by a four-fifths (4/5) vote of the total membership of the Board of Directors and upon a finding that the reserves are no longer required for the designated purpose. Reserve transfers are limited to funding shortfalls in other related budget categories of the particular service and to funding shortfalls in administrative services budget.

SECTION 6: INCONSISTENCY

To the extent that the terms or provision of this Resolution may be inconsistent or in conflict with the terms or conditions of any prior District motions, resolutions, rules, or regulations adopted by the District, governing the same subject matter thereof, then such inconsistent and conflicting provisions of prior motions, resolutions, rules, and regulations are hereby repealed.

SECTION 7: SEVERABILITY

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsection, sentence, clause or phrase be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

SECTION 8: INCORPORATION OF RECITALS

The recitals to this Resolution are true and correct and incorporated herein by this reference.

Upon the motion of Director Vogel, seconded by Director Wright and on the following roll call vote:


AYES: Vogel, Wright, Baltimore, Hoothart, Ochylski
NOES: _____
ABSENT: _____
ABSTAIN: _____

The following Resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District on the 7th day of June 2012.



Marshall E. Ochylski
President, Board of Directors
Los Osos Community Services District

ATTEST:



Susan Morrow
General Manager and Secretary to the Board

RESOLUTION NO. 2016-14

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
APPROVING AMENDMENTS TO THE DISTRICT RESERVE POLICY**

WHEREAS, the Los Osos Community Services District adopted Resolution 2007-24 establishing a District Reserves Policy and establishing reserve account balances by fund; and

WHEREAS, the District desires to revise said Reserve Policy to allow reserve funding to be used for upfront projects costs to prepare projects in advance for grant funding; and

WHEREAS, additional descriptions and authority for establishment and authority for the use of reserves is desired to reflect the current needs of the District; and

WHEREAS, when budgeted reserve funds are not used in a [particular fiscal year, their allocation and carryover the ensuing fiscal year is desired; and

WHEREAS, revisions to the current District Reserve Policy are attached hereto with changes from the existing policy shown.

NOW, THEREFORE, BE IT RESOLVED that the Los Osos Community Services District Board of Directors does hereby approve amendments to the District Reserve Policy as contained in EXHIBIT A herein.

On the motion of Director Wright, seconded by Director Storm
and on the following roll call vote, to wit:

Ayes: Wright, Storm, Casera, Tornatzky, Ochylski
Nays: Casera-11D
Absent: _____
Conflicts: _____

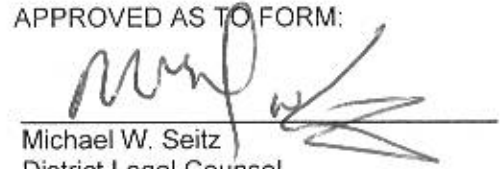
The foregoing resolution is hereby passed, approved, and adopted by the Board of Directors of the Los Osos Community Services District this 5th day of May 2016.



Marshall E. Ochylski
President, Board of Directors
Los Osos Community Services District

ATTEST:


Peter J. Kampa
Interim General Manager and Secretary to the Board

APPROVED AS TO FORM:


Michael W. Seitz
District Legal Counsel

EXHIBIT A

Los Osos Community Services District Reserve Policy

PURPOSE

Los Osos Community Services District (the District) shall maintain reserve funds in the Enterprise, Special and Governmental Funds except the Administrative Fund. This policy establishes the level of reserves necessary for maintaining the District's credit worthiness, operating efficiency and adequately providing for:

- Funding infrastructure and equipment replacement and capital improvement programs, including advance costs for planning, design, legal and permitting work.
- Economic uncertainties and other financial hardships.
- Loss of significant revenue sources such as property tax receipts or connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.
- Evaluate, develop plans for and implement District latent powers or other service or planning needs of the community in accordance with the provisions of the Community Services District Law.

POLICY

Operating (Cash) Reserves

The minimum amount of operating (cash) reserves will equal two months of operating expenses. The maximum amount of operating reserves will equal three months of operating expenses. When the maximum amount of Operating Reserves is reached, all additional operating revenue not anticipated for near term expenditures shall be invested in accordance with the District Investment Policy or transferred by action of the Board to the appropriate capital reserve account depending on how the cash surplus was generated.

Contingency Reserves

The minimum amount of Contingency Reserve, by Fund, will be established annually with the budget. These reserves are maintained for unexpected costs related to daily operations. Differs for funds based on historical evidence or potential for cost variability in the upcoming budget year. Contingency line items in projects or initiatives contained within the approved budget and for which there remains surplus funds at the end of the fiscal year will transfer to the appropriate Fund Reserve.

Capital Reserves

Capital reserves will be accumulated to fund infrastructure projects and will be an integral part of the District's capital plan documented in its financial forecasts and approved Capital Improvement Plans (CIP). Funding targets and annual reserve accrual rates shall be established for each Capital Reserve Fund upon its creation. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense, complete advance planning, design and permitting on projects to maximize grant potential and to maintain critical projects in a "shovel ready" condition where appropriate. The minimum amount of capital reserves will equal one year's capital spending.

The maximum amount of capital reserves will equal two times the accumulated depreciation balance. When Capital Reserves are budgeted to be spent within a particular fiscal year and that expense does not occur within that year, said amount shall be carried forward and allocated to for the same purpose in the ensuing fiscal year, unless the proposed expense is withdrawn during budget development. Capital reserves established for a specific purpose shall be maintained in that reserve account and transferred for other authorized expenditures within that fund only upon authorization of the Board by resolution. Any Resolution transferring funds shall state the purpose of the transfer, the timing of payback, interest to be paid and revenue to be used to refund the original reserve account.

Rate Stabilization Fund

The funding goal of the Board of Directors is to maintain a Rate Stabilization Fund in its Water Enterprise Fund in an amount equal to the estimated maximum revenue loss from extreme or long term water conservation activities or other operating conditions causing revenue shortfalls where approved financial goals and plans cannot be met. The initial amount of rate stabilization fund shall be a minimum amount equaling one year's water consumption revenue and a maximum amount equaling one and one-half year's water consumption revenue.

PROCEDURE FOR USING RESERVE FUNDS

Operating and Contingency Reserves

Operating and contingency reserves can be used at any time to meet cash flow and unexpected expenditure requirements of District operations. Authority to use the funds will be consistent with the District's Expenditure Policy.

Capital Reserves

The Board of Directors will authorize use of capital reserves during the budget process. Capital reserves are also available for unplanned (unbudgeted) capital replacement. Authorization for the use of capital reserves for unplanned capital replacement will be consistent with the District's Expenditure Policy.

Rate Stabilization Fund

The General Manager is authorized to use rate stabilization funds to supplement operating revenue when:

- Total revenue in the Water Enterprise Fund is projected to be five percent or more below the annual budgeted revenue.
- Developing the budget to limit customer rate increases to no more than two and one-half times the consumer price index for small west coast cities.

PROCEDURE FOR MONITORING RESERVE LEVELS

The General Manager shall perform a reserve analysis to be submitted to the Board of Directors upon the occurrence of the following events:

- Board of Directors' deliberation of the annual budget;
- Board of Directors' deliberation of a service charge rate increase; or
- When a major change in conditions threatens the reserve levels established within this policy.

If the analysis indicates projected or actual reserve levels falling 10% below or above the levels outlined in this policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level, and/ or
- An identified course of action to bring reserve levels within the minimum and maximum levels prescribed.