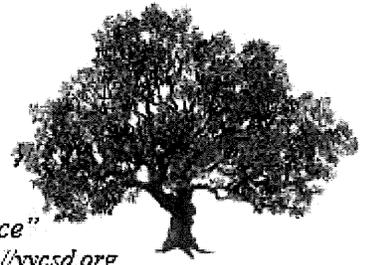


# VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

3745 Constellation Road • Vandenberg Village • Lompoc, CA 93436  
Telephone: (805) 733-2475 • Fax: (805) 733-2109



*"Pride in Community Service"*

<http://vvcasd.org>

[info@vvcasd.org](mailto:info@vvcasd.org)

## FINANCE/BUDGET COMMITTEE MEETING

Tuesday, March 21, 2023

3:00 p.m.

1. CALL TO ORDER
2. ROLL CALL: Directors Bumpass and Stassi
3. ADDITIONS AND DELETIONS TO AGENDA
4. PUBLIC FORUM:

Members of the public wishing to address the Finance/Budget Committee on matters within the jurisdiction of the District may do so when recognized by the Committee chairperson. Please begin by stating your name and place of residence.

5. DISCUSSION ITEMS
  - A. **Capital Budget:** Discuss proposed FY 2023-24 Water and Wastewater Capital Budgets and formulate recommendations to the Board.
  - B. **Operating Budget:** Discuss proposed FY 2023-24 Water and Wastewater Operating Budgets and formulate recommendations to the Board.
  - C. **Administrative Overhead Fee:** Discuss proposed FY 2023-24 Administrative Overhead Fee and consider recommending it to the Board.
  - D. **Municipal Finance:** Consider an offer by Brandis Tallman to give an informational presentation at the May 2 board meeting.

F. **Reserves:** Review and discuss reference material, other agency policies, and VVCSD Resolution 176-06 (reserve policy). Consider recommending changes to the current policy.

G. **Rates:** Review current rates and discuss future increases.

## 6. ADJOURN

*NOTICE: The Vandenberg Village Community Services District will hold a Finance/Budget Committee Meeting at the District Office Conference Room, 3745 Constellation Road, Vandenberg Village, in compliance with Section 54955 of the Government Code of the State of California.*

## Reference Material

### Finance/Budget Committee Meeting – March 21, 2023

#### Reserves

AWWA M54 Extract .....	page 1
CSDA Reserve Policy 2150 Template .....	page 7
GFOA Capital Planning Policies.....	page 9
Nipomo CSD Resolution 2018-1489 .....	page 11
Summerland SD Resolution 2017-06 .....	page 19
Marina Coast WD Reserve Policy.....	page 21
Helix WD Reserve Fund Guidelines.....	page 23
Mission Hills CSD Resolution 16-306 .....	page 29
Vandenberg Village CSD Resolution 176-06 .....	page 31

#### Rates

Water Rates in Santa Barbara County, Highest to Lowest .....	page 35
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Manual of Water Supply Practices

**M54**

# Developing Rates for Small Systems

Second Edition



American Water Works  
Association

individual utility should determine any applicable taxes and the most accurate means of projecting future tax responsibilities to be included in the financial plan.

### **Cash Balances**

If the financial plan is to be an effective tool in projecting the need for future revenue/rate increases, it should also include projections of cash balances that are available for the water utility's use. Customers and elected officials may question proposed rate increases if the utility appears to be maintaining significant cash balances above established fiscal requirements and targets that could potentially be used to fund capital projects or offset other revenue requirements. For purposes of the case study, the unrestricted beginning cash balance was assumed to be \$200,000 (see Table 3-4, line 16). This balance changes over time as the future annual revenues and expenditures change.

The utility should make certain that any cash balances identified in the financial plan as available to fund annual revenue requirements are not restricted to other purposes. It is also important to understand the nature of the cash balances. If extra cash is available in the operating or revenue fund because prior year's water demand exceeded projections and generated surplus sales revenue, then typically those monies should be available for any water utility purpose. However, if extra cash is available because system development charge revenues exceeded projections, those monies may be restricted to specific purposes, such as funding capital projects or associated debt service. Restrictions on the use of system development charge revenues vary by location.

### **Reserves**

Maintaining cash reserves is a common way that utilities mitigate financial risk, plan for future system needs, and satisfy bond covenant requirements. Water utilities that have issued debt to pay for capital assets will often have requirements to maintain reserves that are specifically defined to meet the legal covenants of the debt that was issued. Reserves may be established to fund future capital projects, or as a contingency for unexpected fluctuations in revenues or expenditures, or for the funding of unexpected capital improvement needs.

Reserves may also be established for purposes of rate stabilization. The establishment of a rate stabilization fund may allow the utility to set aside a cash amount that can be used to provide rate stabilization in years when revenues are unusually low or expenditures are unusually high.

Various types of reserves and industry guidelines for setting reserve levels are discussed later in this chapter. For purposes of the example utility, a 25 percent O&M or cash reserve target (three months or 25 percent of annual O&M expenditures) has been established along with a capital reserve equal to approximately one year of planned renewal and replacement infrastructure. The next section of this chapter discusses the establishment of target reserve balances.

## **ESTABLISHING TARGET RESERVE BALANCES**

The level of reserves maintained by a utility is another important financial planning consideration that should be reviewed annually. Many utilities, as well as financial rating agencies and the investment community as a whole, place special emphasis on reserve fund balances that are adequate to serve as a cushion or protection to the financial security for the utility under potentially adverse conditions. Utilities should have a well-defined policy regarding their reserve level goals for two reasons. First, it provides a utility guidance in planning to have adequate funds available to meet its financial obligations in times of varying needs. Second and more important, it provides a framework around which

financial decisions can be made to determine when reserve balances are inadequate or excessive and what specific actions need to be taken to remedy the situation.

Utility reserve balances can be thought of as similar to savings accounts. Reserve balances are funds that are set aside for a specific cash flow requirement, financial need, project, task, or legal covenant. These balances may be maintained in order to meet short-term cash flow requirements and minimize the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

It is important to establish financial policies that clearly state the basis for establishing targeted reserve balances. Financial policies should articulate how these balances are established, their use, and how to determine the adequacy of the reserve fund balances. For planning purposes, the reserve balances should be reviewed annually during the budgeting process to monitor current levels and provide for conformance with existing policies and practices. Decisions can be made to maintain, increase, or decrease the reserve balances, as appropriate, depending on the impact of such decisions for the upcoming budget period. A utility should review the basis used to establish reserve balances every 3 to 5 years. This time frame is appropriate given that debt levels and capital infrastructure activity can vary during this time, and changes in this factor have an effect on the appropriate level of reserve balances. This type of review allows for the basis of establishing reserve balances to be changed or modified to better reflect the existing conditions and issues.

## GENERAL OVERVIEW OF COMMON INDUSTRY PRACTICES

This section discusses the common approaches or practices used by the water utility industry to establish reserve balances. In this process, it is important for smaller utilities to begin considering the establishment and maintenance of various funds in relationship to their specific needs or areas. The most common reserve balances are usually established around the following four areas: operating, capital, contingency, and debt.

### Operating Reserves

Operating reserves are typically established to provide the utility with the ability to withstand cash-flow fluctuations. Another term for this reserve fund balance is a *working capital reserve*. There can be a significant length of time between when a system provides a service and when a customer may pay for that service. A study of the utility's historical cash flow and how its accounts receivable balance has changed over time can accurately quantify the time period between delivery and payment for service. In addition to timing, the volume of cash flow can be affected by weather and seasonal demand patterns. This issue is larger for some water utilities than it is for others.

For those who do not have sufficient information to conduct this type of analysis, various industry standards are in use. A 45- to 90-day (approximately 6 to 13 weeks) O&M reserve is a frequently used industry norm. Many utilities attempt to keep an amount of cash equal to at least 45 days, or one-eighth of their annual cash O&M expenses, in an operating reserve to mitigate potential cash flow problems. However, the reserve level is a policy decision for the utility that is influenced by the specific timing of disbursements and receipt of revenues, the financial comfort level of the utility, and the utility's billing frequency. It may also be dependent on the utility's access to short-term "loans" from other sources. For example, if the utility is part of a municipal organization or district, it may have access to working capital funds that would allow for the maintenance of lower reserves. To the extent these funds are "accessed," the utility should plan for the replacement of such funds.

## Capital Reserves

A capital reserve balance is intended to be used to fund capital projects that expand system capacity, comply with regulatory requirements, or replace system assets that have become worn out or obsolete. This reserve commonly consists of resources that are restricted for capital purposes (e.g., system development charges, renewal and replacement funding from rates), and can provide a cushion to absorb capital cost overruns that might otherwise require debt issuance and/or rate increases. A minimum balance for this reserve is often defined based on a percentage (1–2 percent) of the cost of system assets or a rolling-average of planned capital expenditures.

## Contingency Fund

### Emergency Reserve Requirement (at VVCSD)

The contingency reserve fund balance is essentially “insurance” against unanticipated emergencies or failure of the utility’s most vulnerable system components. This reserve provides funding for emergency repairs or replacements, typically those caused by natural disasters such as hurricanes, floods, earthquakes, tornados, fires, and similar natural disasters. One method for determining the balance to maintain in such a reserve is to determine the cost of replacing the most expensive facility of the utility system and reserving an amount equal to that cost, less any potential insurance payments that may be applicable. Another method is to base the level of reserve on the historical records and experience of the utility in dealing with such emergencies and disasters, reflecting the chance of incidence of these situations. Determining the emergency reserve level for a system is also a function of management objectives and overall system reliability. The need for a contingency reserve may be mitigated or even eliminated through the establishment of a close working relationship with local lending institutions and creation of an available line of credit to quickly draw on during such a period.

## Debt Reserves

Establishment of a debt reserve is typically legally required by the covenants and indentures of most revenue bonds and may be required by some general obligation bonds. Many state lending programs also have similar requirements. The establishment of a debt reserve provides security to the bondholders that adequate funds will be available to pay the debt service obligations, even under a distressed situation.

The debt service reserve fund is typically established at an amount equal to the lesser of the maximum annual debt service on all outstanding senior parity bonds, or 120 percent of the total annual debt service, or 10 percent of the bond issue amount. Often this amount is included in and funded from the principal amount of the bond issue and serves to secure the debt service payment to bondholders. However, it can also be funded from current-year rate revenues over a period of years, e.g., funded monthly over the first 60 months after the issue date.

## Rate Stabilization Fund

Some utilities have established a rate stabilization fund or account of unrestricted cash reserves that can be used to meet revenue requirements while gradually increasing rates over time to the level necessary for the utility to be financially sustainable. A utility may have a financial policy pertaining to the funding of such account.

Many bond indentures establish a “rate stabilization fund” that functions as a debt service coverage management tool. During the years in which a transfer is made to the rate stabilization fund, the utility’s revenue for coverage purposes is reduced by the amount of the transfer (i.e., the revenue recognition is deferred). The balances in the rate stabilization fund can be used in future years to improve debt service coverage—any withdrawals from

the fund are recognized as revenue for coverage purposes. This type of fund also allows a utility to gradually phase in rate increases and reduce "rate shock."

Establishment of appropriate reserve balances will provide utility management with additional resources to manage the financial position of the utility, ensure financial stability, and mitigate financial risk. The reserves provide a buffer in lean years and give the utility greater flexibility at all times because there is "money in the bank" that can be used to take advantage of opportunities that may arise. The reserve recommendations contained within this discussion should be tailored to the specific needs of the utility. Some of the reserves may not be required or appropriate for all utilities.

## **SUMMARY OF THE FINANCIAL PLAN**

A multiyear financial plan will provide the utility with a view of its anticipated financial position, and will help the utility identify the overall level of revenue adjustment required to cover the future operation and capital needs. The financial plan is used as the framework within which the interrelationship of revenues, reserves, operating costs, and capital costs is analyzed.

Elements of a financial plan include projections of revenues, expenditures (O&M, capital, debt service, and taxes), cash reserves, and key financial ratios such as debt service coverage. The example financial plan described in this chapter has used the operating and capital budgets for the year 1 projections and reflects a 1.5 percent annual growth rate for water service revenues based on current rates (accounts and consumption) and a 3 percent annual escalator for miscellaneous revenue and O&M expenses (with the exception for the previously discussed maintenance category). These factors were recognized in the projections shown in Tables 3-1 and 3-2, which have been carried forward to the financial plan shown in Table 3-4. The projected financing of the capital improvement program, developed in Table 3-3, has also been carried forward to Table 3-4.

The example financial plan illustrates that revenue increases ranging from 32 percent to 57 percent will be required during the 5-year time horizon. It is important to note that the results of the financial plan are cumulative. That is, any revenue or rate adjustment in a prior year will reduce the amount required in subsequent years. Alternative revenue/rate plans are discussed later in this chapter.

## **OVERVIEW OF THE REVENUE SUFFICIENCY EVALUATION**

A revenue sufficiency evaluation involves the assessment of the adequacy of revenues anticipated to be generated under existing rates in meeting the revenue requirement needs of the utility, and an assessment of the rate revenue adjustments necessary in each year of the forecast period in the case that revenues from existing rates are not adequate. The cash flow projection in Table 3-4 shows the level of annual revenue adjustment required in each year of the 5-year projection period (see Table 3-4, line 22, cumulative revenue and reserve deficiency) for the case study example. The revenue increases shown on Table 3-4 are stated for each year as if no revenue adjustments were made in any year of the projection period.

When assessing the annual rate revenue adjustments needed in each year of the projection period, it is necessary to take into account the effect of revenue adjustments that are proposed to be adopted in prior years of the projection period and their cumulative effect on future year rate revenues. A further discussion of how to assess revenue sufficiency and the need for rate revenue adjustments is provide in the following sections.



**CSDA POLICY TITLE: Reserve Policy**  
**POLICY NUMBER: 2150**

2150.1 Purpose: The [name of District] (the District) shall maintain reserve funds from existing unrestricted funds as designated by the District's Reserve Policy. This policy establishes the procedure and level of reserve funding to achieve the following specific goals:

- a) Fund replacement and major repairs for the District's physical assets.
- b) Fund regular replacement of computer hardware and software.
- c) Fund designated conservation projects/programs or other special uses not otherwise funded by grants or requiring additional monetary support;
- d) Fund capital improvements; and
- e) Maintain minimal operational sustainability in periods of economic uncertainty.

The District shall account for reserves as required by Governmental Accounting Standards Board Statement No. 54, which distinguishes reserves as among these classes: non-spendable, restricted, committed, assigned and unassigned. The reserves stated by this policy, unless otherwise required by law, contract, or District policy shall be deemed "assigned" reserves.

2150.2 Policy: Use of District Reserves is limited to available "Unrestricted" Funds (not obligated by law, contract or agreement), including donations, interest earned, fees for service or other non-grant earnings. All special use funds will be designated by formal action of the Board of Directors. [The following reserves reflect common purposes of many Districts for cash reserves; the listed purposes and reserve amounts should be tailored to the needs of your District.]

- a) **Vehicle Fleet Reserve:**  
Vehicle Fleet Reserves will accumulate from existing unrestricted funds, at a rate of [\$10,000] annually. The maximum amount of Vehicle Fleet Reserves will be [\$50,000]. When the annual accumulation would increase the Reserve beyond [\$50,000], only the amount required to reach the maximum will be reserved.
- b) **Technology Reserve:**  
Technology Reserves will accumulate from existing unrestricted funds at a rate of [\$4,000] annually. The maximum amount of Technology Reserves will be [\$20,000]. When the annual accumulation would increase the Reserve beyond [\$20,000], only the amount required to reach the maximum will be reserved.
- c) **Designated Project/Special Use Reserve:**  
Designated Project/Special Use Reserves will accumulate from existing unrestricted funds at a rate of [\$10,000 annually]. The maximum amount of Designated Project/Special Use Reserve will be [\$50,000]. When the annual accumulation would increase the Reserve beyond [\$50,000], only the amount required to reach the maximum will be reserved.
- d) **Capital Improvement Reserve:** Capital Improvements Reserve will accumulate from existing unrestricted funds at a rate of [\$25,000] annually. The maximum amount of Capital Improvement Reserves will be [\$100,000]. When the annual accumulation would increase the Reserve beyond [\$100,000], only the amount required to reach the maximum will be reserved.

- e) **Repair/Operations & Administrative Operations Reserve:** Facility & Administrative Operations Reserves will accumulate from existing unrestricted funds at a rate of [\$260,000] annually. The maximum amount of Facility & Administrative Operations Reserves will be [\$780,000]. When the annual accumulation would increase the Reserve beyond [\$780,000] (equivalent of three years of Operations Reserves), only the amount required to reach the maximum will be reserved.
- f) **Total All Reserve Funds:**  
The total amount of Reserves designated annually from all funds shall be [\$309,000] with a cumulative accrual cap of [\$1,000,000].

2150.3 Using Reserve Funds:

- a) **Vehicle Fleet Reserve:**  
Vehicle Fleet Reserves will be used exclusively for the purchase of new vehicles to support District operations, or to make major repairs to existing vehicles.
- b) **Technology Reserve:**  
Technology Reserves will be used to purchase hardware and software in support of District operations, with the intent of maintaining a modern technology for employees.
- c) **Designated Project/Special Use Reserve:**  
Projects, programs or special uses will be identified by the General Manager and/or the Board of Directors and approved by the Board. Uses must further the mission of the District and will be evaluated for designation according to value to the District and the people it serves.
- d) **Capital Improvements Reserve:**  
Capital Improvements Reserves shall be limited to costs related to making changes to improve capital assets, increase their useful life, or add to the value of these assets.  
**Operations/Repair & Administrative Operations Reserve:**
- e) **Operational Reserves shall be utilized to support:**
  - 1) Administrative operational functions, including minimal staffing levels and administrative/office expenses;
  - 2) facility operations;
  - 3) facility repairs (distinguished from Capital Improvements and may include painting, caulking of seams, roof repairs, HVAC repairs, patching of walls, etc.).

2150.4 **Monitoring Reserve Levels:** The General Manager, in collaboration with the [position title], shall perform a reserve status analysis annually, to be provided to the Board of Directors' annual deliberation/approval of Budget and Reserve Funds.

Additional information may be provided to the Board of Directors upon the occurrence of the following events:

- a) When a major change in conditions threatens the reserve levels established by this policy or calls into question the effectiveness of this policy;
- b) Upon General Manager and/or Board request.



# BEST PRACTICE

## Capital Planning Policies

### BACKGROUND:

Policies designed to guide capital planning help to assure that each jurisdiction's unique needs are fully considered in the capital planning process. Effective policies can also help a government to assure the sustainability of its infrastructure by establishing a process for addressing maintenance, replacement, and proper fixed asset accounting over the full life of capital assets. In addition, capital planning policies can strengthen a government's borrowing position by demonstrating sound fiscal management and showing the jurisdiction's commitment to maximizing benefit to the public within its resource constraints.

Good capital planning policies can lead to the development of a capital plan that is consistent with best practices; however, they do not constitute the capital plan itself. Rather, capital planning policies establish a framework in which stakeholders understand their roles, responsibilities, and expectations for the process and an end result.<sup>1</sup> Ideally, such policies also include guidelines for coordinating capital projects and promoting sound, long-term operational and capital financing strategies.

To create a sustainable capital plan, the finance officer and other participants in the capital planning process need to consider all capital needs as a whole, assess fiscal capacity, plan for debt issuance, and understand impact on reserves and operating budgets, all within a given planning timeframe. Capital planning policies provide an essential framework for managing these tasks and for assuring that capital plans are consistent with overall organizational goals.

### RECOMMENDATION:

GFOA recommends that governments develop and adopt capital planning policies that take into account their unique organizational characteristics including the services they provide, how they are structured, and their external environment.

Capital planning policies should provide, at minimum:

1. A description of how an organization will approach capital planning, including how stakeholder departments will collaborate to prepare a plan that best meets the operational and financial needs of the organization.
2. A clear definition of what constitutes a capital improvement project.<sup>2</sup>
3. Establishment of a capital improvement program review committee and identification of members (for example, the finance officer or budget officer, representatives from planning, engineering, and project management, and, as deemed appropriate, operations departments most affected by capital plans, along with a description of the responsibilities of the committee and its members.

4. A description of the role of the public and other external stakeholders in the process. (The level and type of public participation should be consistent with community expectations and past experiences.)
5. Identification of how decisions will be made in the capital planning process including a structured process for prioritizing need and allocating limited resources
6. A requirement that the planning process includes an assessment of the government's fiscal capacity so that the final capital plan is based on what can realistically be funded by the government rather than being simply a wish list of unfunded needs.
7. A procedure for accumulating necessary capital reserves for both new and replacement purchases.
8. A policy for linking funding strategies with useful life of the asset including identifying when debt can be issued and any restrictions on the length of debt.<sup>3</sup>
9. A requirement that a multi-year capital improvement plan be developed and that it include long term financing considerations and strategies.
10. A process for funding to ensure that capital project funding is consistent with legal requirements regarding full funding, multi-year funding, or phased approaches to funding.
11. A requirement that the plan include significant capital maintenance projects.
12. Provisions for monitoring and oversight of the CIP program, including reporting requirements and how to handle changes and amendments to the plan.

#### Notes:

<sup>1</sup> See GFOA Best Practices on capital planning. (Multi-Year Capital Planning (2006) and The Role of Master Plans in Capital Improvement Planning (2008)

<sup>2</sup> See GFOA's Best Practice, Establishing Appropriate Capitalization Thresholds for Capital Assets

<sup>3</sup> Capital planning policies should be consistent with or reference an organization's debt policies

#### References:

- GFOA Best Practice, Asset Maintenance and Replacement, 2010
- GFOA Best Practice, Understanding Your Continuing Disclosure Responsibilities, 2010
- GFOA Best Practice, Disaster Preparedness, 2008
- GFOA Best Practice, Multi-Year Capital Planning, 2006
- GFOA Best Practice, Establishing Appropriate Capitalization Thresholds for Capital Assets, 2006

**NIPOMO COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 2018-1489**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO  
COMMUNITY SERVICES DISTRICT AMENDING THE CASH RESERVE  
POLICY FOR THE DISTRICT**

**WHEREAS**, the Board of Directors of the Nipomo Community Services District ("District") intends that the District will at all times have sufficient capital available to meet its operating, replacement, capital projects and debt service payments; and

**WHEREAS**, the District desires to establish sound financial policies to promote favorable bond ratings in capital markets so that bonds may be used for future financing of District projects; and

**WHEREAS**, the District desires to reserve capital for unanticipated and unforeseeable expenses; and

**WHEREAS**, the District desires to establish a buffer should revenue estimates in any year not meet projections; and

**WHEREAS**, the Cash Reserve Policy has been amended and is hereby presented at this meeting and it is appropriate at this time for the Board of Directors to consider approval of the adoption of the amended Policy.

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the Nipomo Community Services District:

**SECTION 1.** The above recitals are true and correct.

**SECTION 2.** The Cash Reserve Policy, as amended, in the form presented at this meeting attached hereto Exhibit "A" are hereby approved and adopted.

**SECTION 3.** The officers of the District are hereby directed to do and cause to be done any and all acts and things necessary or proper in order to effectuate the purposes of this resolution.

**SECTION 4.** This resolution shall take effect immediately.

Upon a motion by Director Armstrong, seconded by Director Blair, on the following roll call vote, to wit:

**AYES:** Director Armstrong, Blair, Woodson, Gaddis and Eby  
**NOES:** None  
**ABSTAIN:** None  
**ABSENT:** None

**NIPOMO COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 2018-1489**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO  
COMMUNITY SERVICES DISTRICT AMENDING THE CASH RESERVE  
POLICY FOR THE DISTRICT**

The foregoing resolution is hereby adopted this 24<sup>d</sup> day of October 2018



\_\_\_\_\_  
**ED EBY**  
President of the Board

ATTEST:

APPROVED AS TO FORM AND  
LEGAL EFFECT:



\_\_\_\_\_  
**MARIO IGLESIAS**  
General Manager and Secretary to the Board



\_\_\_\_\_  
**WHITNEY G. McDONALD**  
District Legal Counsel

NIPOMO COMMUNITY SERVICES DISTRICT  
CASH RESERVE POLICY  
EXHIBIT "A"

**PURPOSE**

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Nipomo Community Services District (District) will strive at all times to have sufficient funding available to meet its operating, capital and debt service obligations as well as to protect its creditworthiness. The District is committed to maintaining a financial structure that provides adequate and predictable revenues at the lowest possible cost to meet forecasted needs and operational objectives.

It should be noted that the District has a Debt Management Policy that establishes parameters for evaluating, issuing and managing the District's debt. The District's Debt Management Policy should be considered prior to committing to any new financial obligations.

The adequacy of the targeted cash reserve year-end balance ranges and/or annual contributions to each fund will be reviewed annually during the budgeting process or when a major change in conditions threatens the reserve levels established within this policy.

**OPERATING FUNDS**

**WATER FUND (FUND #125)**

**Purpose:** To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing water services. (Funded from rates and charges)

**Target Criteria:** To meet the District's cash flow needs and unbudgeted expenses, the Water Fund cash reserves, including the Water Rate Stabilization Fund #128, should be equal to or greater than twelve months (360 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 120 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess balance from Water Fund #125 to the Funded Replacement Water Fund #805.

**TOWN SEWER FUND (FUND #130)**

**Purpose:** To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

**Target Criteria:** To meet the District's cash flow needs and unbudgeted expenses, the Town Sewer Fund cash reserves, including the Town Sewer Rate Stabilization Fund #135, should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

NIPOMO COMMUNITY SERVICES DISTRICT  
CASH RESERVE POLICY  
EXHIBIT "A"

After adoption of the budget and within 120 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may Approve a transfer of the excess balance from the Town Sewer Fund #130 to the Funded Replacement Town Sewer Fund #810.

**BLACKLAKE SEWER FUND (FUND #150)**

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Blacklake Sewer Fund cash reserves, including the Blacklake Sewer Rate Stabilization Fund #155, should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 120 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess balance from the Blacklake Sewer fund #150 to the Funded Replacement Blacklake Sewer Fund #830.

**WATER RATE STABILIZATION FUND (FUND #128)**

Purpose: To serve as a buffer to water rates during any period where there are unexpected increases in operating costs or decreases in revenues. In addition, in a severe drought or extremely wet conditions, it is reasonable to expect that water sales could fluctuate significantly. As such, this fund will absorb these types of fluctuations in operations and help stabilize rates and enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$400,000.

**TOWN SEWER RATE STABILIZATION FUND (FUND #135)**

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$300,000 set by Bond Indenture Agreement for the Revenue of Certificates of Participation Series 2012.



NIPOMO COMMUNITY SERVICES DISTRICT  
CASH RESERVE POLICY  
EXHIBIT "A"

**BLACKLAKE SEWER RATE STABILIZATION FUND (FUND #155)**

**Purpose:** To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

**Target Criteria:** Minimum reserve requirement of \$50,000.

**BLACKLAKE STREET LIGHTING (FUND #200)**

**Purpose:** To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing street lighting services for Blacklake Village. (Funded by annual assessment to property owners in Blacklake Village)

**Target Criteria:** Minimum reserve requirement of \$30,000.

**LANDSCAPE MAINTENANCE DISTRICT (FUND #250)**

**Purpose:** To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing landscape maintenance to the property owners of Tract 2409. (Funded by annual assessment to property owners in Tract 2409 aka Vista Verde Estates)

**Target Criteria:** Minimum reserve requirement of \$20,000.

**SOLID WASTE (FUND #300)**

**Purpose:** To ensure sufficient cash resources are available to fund solid waste programs, rate stabilization and to cover 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 during an extended disruption to service provider. (Funded by Franchise Fees)

**Target Criteria:** Minimum reserve requirement of \$150,000.

**DRAINAGE (FUND #400)**

**Purpose:** To ensure sufficient cash resources are available to operate and maintain the Nipomo Drainage Maintenance District 76-02 (storm water conveyance system and basin serving Folkert Oaks Mobile Home Park and adjacent properties on Juniper Street). (Funded by a 1% ad valorem property tax rate)

**Target Criteria:** Minimum reserve requirement of \$50,000.

NIPOMO COMMUNITY SERVICES DISTRICT  
CASH RESERVE POLICY  
EXHIBIT "A"

**FUNDED REPLACEMENT- WATER (FUND #805)**

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future water rates. (Funded by water rates and charges and interest earnings)

Target Criteria: No minimum target is maintained

**FUNDED REPLACEMENT- TOWN SEWER (FUND #810)**

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future town sewer rates. (Funded by Town sewer rates and charges and interest earnings)

Target Criteria: No minimum target is maintained

**FUNDED REPLACEMENT- BLACKLAKE SEWER (FUND #830)**

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future Blacklake sewer rates. (Funded by Blacklake sewer rates and charges and interest earnings)

Target Criteria: No minimum target is maintained

**NON-OPERATING FUNDS**

**SUPPLEMENTAL WATER FUND (#500)**

Purpose: The revenue generated from the Supplemental Water Capacity Charge accumulates in this fund and its use is restricted to projects, programs and expenditures that reduce the District's reliance on groundwater as its sole water supply. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

**PROPERTY TAX (FUND #600)**

Purpose: District's share of the 1% ad valorem tax on real property collected by the County of San Luis Obispo and distributed to the District pursuant to Article XIII A of the California Constitution. (Funded by property taxes and interest earnings)

Target Criteria: No minimum target is maintained, however, the annual property tax revenue stream is pledged to pay the annual debt service for the 2013 Certificates of Participation and the 2013 Refunding Revenue Bonds.

**WATER CAPACITY CHARGES (FUND #700)**

Purpose: The revenue generated from the Water Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest)

Target Criteria: No minimum target is maintained.

**TOWN SEWER CAPACITY CHARGES (FUND #710)**

Purpose: The revenue generated from the Town Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

RESOLUTION NO. 2017-06

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE **SUMMERLAND SANITARY DISTRICT** ESTABLISHING A  
DISTRICT'S **RESERVE FUND POLICY**

WHEREAS, the Board of Summerland Sanitary District has received a Financial Plan and Rate Study report from Raftelis Financial Consultants (Raftelis) dated December 6, 2017 (Raftelis Report) which recommends target reserves for the District's funds.

WHEREAS, The Board of Directors of Summerland Sanitary District has determined to adopt those recommendations made by Raftelis.

NOW, THEREFORE, BE IT RESOLVED AS FOLLOWS:

1. **Created.** The reserve funds set forth in section 3 (three) are hereby created. The General Manager shall establish and maintain the reserve funds in accordance with this policy. All dollar amounts indicated are 2017 dollars.
2. **Utilization.** The reserve funds created will be utilized for the specific purposes set forth in this Resolution. Both funds 5215 and 5216 are established funds. With this Resolution the Board of Directors is establishing a new Capital Replacement and Repair Fund 5217.
3. **Funds**

A. **Operations Reserve Fund 5215**

Purpose: Operations reserve fund shall be used to meet ongoing cash flow requirements as well as unanticipated increases in operating cost. These funds may also be used to ensure sufficient funding for District purposes in the event of an unanticipated increase in operating cost, such as those caused by large unexpected fluctuations in energy costs, or deduction in wastewater revenues. Unrestricted reserve funds may be used for any proper district purpose.

Funding: The Operations Reserve Fund shall be funded by income from annual sewer fees and property tax. The recommended minimum balance by Raftelis is 6 (six) months of annual operating cost. The recommended reserve target by Raftelis for FY2018 is \$470,000 (see Rate Study Report December 6, 2017, page 12, Table 4-5: Reserve Policies).

B. **Capital Facilities Fund 5216**

Purpose: Capital Facilities Fund reserve was established as required by Government Code section 66013.

Funding: The Capital Facilities Fund Reserve shall be funded by fees collected under Ordinance No. 10: "Establishing of a new Capital Facility Recovery Fee" are to be deposited in this capital facilities fund. "The District shall account for the charges in a manner to avoid any comingling with any other monies of the District, except for investments and shall expend these charges solely for the purpose for which these charges were collected."

C. Capital Replacement and Repair Fund 5217.

Purpose: Capital Replacement and Repair Fund Reserve shall be used for capital expenditures and emergency funding.

Funding: The Capital Replacement and Repair Fund Reserve fund includes any excess revenues that are part of the unrestricted reserve fund. The Capital Replacement and Repair fund should have a minimum balance of 1 (one) year of annual system depreciation. The annual system depreciation recommended by Raftelis is \$142,000 for FY2018. The recommended emergency target for this fund by Raftelis is \$2 million (see Rate Study Report December 6, 2017, page 12, Table 4-5: Reserve Policies)

PASSED AND ADOPTED by the Governing Board of SUMMERLAND SANITARY DISTRICT this 14<sup>th</sup> day of December 2017, by the following vote:

AYES: J. Colomy, B. Franklin, J. Franklin, D. Novis, M. Tucker

NAYS: Ø

ABSENT: Ø

Martin Tucker

Martin Tucker  
President Board of Directors  
SUMMERLAND SANITARY DISTRICT



ATTEST:  
B. Franklin

Betty Franklin, Secretary

It is fiscally responsible to set aside cash reserves to prepare for planned and unexpected expenses in the future. To ensure equity between current and future ratepayers, a portion of each year's revenue should be reserved for the replacement of assets that are currently in use. Customers who receive the benefit of the water and wastewater infrastructure should contribute to the replacement of those assets as they age so the cost is shared appropriately between current and future ratepayers.

For each of the funds below, a benchmark for appropriate available reserves is provided, and description of circumstances when use of reserve funds is recommended.

**Fund 10 – General Operation:**

- Operating reserve equal to average current liabilities for Fund 10, plus 20% of the liability for employee sick and vacation leave balances.
- Reserve balance should be used to pay current liabilities when current revenue is insufficient to meet obligations.

**Fund 20 – Water Operation:**

- Operating reserve equal to six months of operating expenses.
- Water operating reserves should be used when short-term fluctuations in expenses or revenue cause water revenue to be insufficient to meet operating expenses.

**Fund 30 – Wastewater Operation:**

- Operating reserve equal to six months of operating expense.
- Wastewater operating reserves should be used when short-term fluctuations in operating expenses or revenue cause wastewater revenue to be insufficient to meet operating expenses.

**Fund 21 – Administrative Capital Replacement:**

- Reserve, when combined with the reserve of Fund 31, equal to the replacement cost of the District administration building at the end of its useful life.
- Reserves will be used to replace or upgrade the administration building.

**Fund 22 – Water Capital Replacement:**

- Capital Repair and Replacement: reserve equal to 4% of the replacement cost of Fund 22 capital assets. The average expected life of capital assets is about 25 years. 4% (1/25) approximates the annual replacement cost of these assets.
- Reserves will be used for the unexpected replacement of a major component of the water infrastructure (e.g. well, treatment plant), for changes to the infrastructure required to meet new regulatory mandates, or for the planned replacement of assets where the cost of the replacement is greater than the current revenue available.

**Fund 23 – Wastewater Capital Replacement:**

- Capital Repair and Replacement: reserve equal to 4% of the replacement cost of Fund 23 capital assets. The average expected life of capital assets is about 25 years. 4% (1/25) approximates the annual replacement cost of these assets.
- Reserves will be used for the unexpected replacement of a major component of the wastewater infrastructure (e.g. lift stations, treatment plant), for changes to the infrastructure required to meet new regulatory mandates, or for the planned replacement of assets where the cost of the replacement is greater than the current revenue available.

**Fund 31 – Administrative Capital Expansion:**

The purpose of the fund is to provide capital for all future expansion of administrative support services required for operations and infrastructure at build-out. The balance of the fund may be negative or positive, depending on the cash flow of revenue and expansion capital projects. The fund balance should be zero when all infrastructure and administrative support expansion services needed for the customer base at build-out is built and in operation.

**Fund 32 – Water Capital Expansion:**

The purpose of the fund is to provide for all future expansion of the water infrastructure required to meet the needs of all future customers. The revenue source is water connection fees. Expenditures will be for capital projects that expand the capacity of the system to meet the needs of new users. The balance of the fund may be negative or positive, depending on the cash flow of connection fee revenue and expansion capital projects. The fund balance should be zero when all infrastructure needed for the customer base at build-out has been built and is in operation.

**Fund 33 – Wastewater Capital Expansion:**

The purpose of the fund is to provide for all future expansion of the wastewater infrastructure required to meet the needs of all future customers. The revenue source is wastewater connection fees. Expenditures will be for capital projects that expand the capacity of the system to meet the needs of new users. The balance of the fund may be negative or positive, depending on the cash flow of connection fee revenue and expansion capital projects. The fund balance should be zero when all infrastructure needed for the customer base at build-out has been built and is in operation.

**Fund 96 – New Enterprise:**

- Recommended reserve equal to five years' average participation in the employee down payment assistance program.
- Reserves will be used if participation in the employee down payment assistance program in any year is greater than the annual contribution to the fund from District property tax revenues.

**Fund 97 – Trout Habitat Enhancement:**

The District has an ongoing obligation according to the Trout Habitat agreement to contribute \$10,000/year (increased annually for inflation), and administer the accumulated funds for trout habitat enhancement. There is no target fund balance; the balance will be the sum of accumulated contributions less expenditures according to the settlement agreement.

**Fund 98 – LADWP Settlement:**

The District has a future obligation of \$3.2 million (increased by CPI each year between 2014 and final settlement) to LADWP as part of the agreement entered into by the District and LADWP in July 2013. The date of the final payment will be affected by the amount of water used by the District's customers, but will be between the years of 2063 and 2073. The annual contribution to meet the future obligation is approximately \$50K.

**The recommended annual contribution to reserves will be the lesser of 5% of revenue or the difference between the total target available reserve balance and the total current available reserve balance.**

**Helix Water District**  
**RESERVE FUND GUIDELINES**  
2010

Background

Helix Water District's (District) total operating and capital costs will exceed one billion dollars over the next twenty years. For this reason, District financial policies must be closely considered in order to guarantee that the District can meet the future financial requirements of customer demand and system reliability for the District's 2030 population. A key part of the District's financial preparedness rests on sound reserve guidelines.

Helix, as an irrigation district, operates as a single enterprise, with a single enterprise fund. The District refers to "reserves" as all cash and investments belonging to the District's fund at any given time—also called working capital.

This fund is divided into the following categories:

**Unallocated Reserve Funds** – funds for future operations and PAYGO capital needs

**Allocated Reserve Funds** – funds used in current operations

**Designated Reserve Funds** – funds designated for special purposes and projects

**Restricted Reserve Funds** – legally restricted bond covenant funds

Reserve Guidelines

Adequate designations of reserves--funds set aside for various legitimate purposes--are critical to the successful and stable, short and long-term operation of the District.

Adequate reserves for District operations ensure that customers experience both stable rates for service and the security that the District can respond to emergencies, especially regarding water quality issues. Adequate reserves ensure that the District will at all times have sufficient funding available to meet its operating, capital and debt service cost obligations, together with future debt or capital obligations, as well as any unfunded mandates, including costly regulatory requirements.

The District manages its working capital in a manner that allows the District to fund costs consistent with its annually updated Ten-Year Capital Improvement Program and Five-Year Financial Plan, and that avoids significant rate fluctuations due to changes in cash flow requirements.



The ability of the District to maintain reserve funds is a critical factor in providing reliable service, mitigating rate increases, and ensuring overall financial strength.

Adequate reserves directly affect the District's bond rating and ultimately the ability to access debt markets at favorable interest rates, thereby ensuring the ability to finance and construct the infrastructure necessary to renew existing systems and expand service levels to meet future needs.

Annually, during the budget adoption process, the District's Board of Directors (Board) approves the appropriate levels and uses for reserve funds based upon the needs of the District's customers.

## **UNALLOCATED RESERVE FUNDS**

### **Operating Funds - "General Fund"**

The purpose of the Operating Fund, commonly termed the "General Fund," is to provide working capital for the annual PAYGO Capital Improvement Program, planning for the Ten-Year Capital Improvement Program and for bond coverage. The General Fund also provides the working capital to fund day-to-day operations and water purchases, as well as unforeseen emergency repairs to the District's infrastructure. Its funds enable the District to maintain a policy of minimal orderly rate increases, usually at or below inflation, consistent with the Board's rate setting policy.

District reserve guidelines are to maintain the General Fund at a level prescribed in the annual Five-Year Projection. The General Fund will be targeted to maintain a reserve equivalent of ten percent of net operating revenues in the 5<sup>th</sup> year of the financial projection. Water rates are set annually to achieve this targeted minimum ending balance; however, it is acknowledged that fund balances will fluctuate from month to month. Since water rates are set once a year, the ten percent goal in the 5<sup>th</sup> year serves as both a minimum and maximum figure and leads to smooth rate changes.

## **ALLOCATED RESERVE FUNDS**

The allocated funds represent the District's payments promised under current operations. These funds cover invoices received by the District, contractual payments, or capital projects that have been appropriated by the Board. These funds are also adjusted for water revenues that have been recorded but are pending collection from customers.

## DESIGNATED RESERVE FUNDS

These designated funds, combined with working capital, will be drawn down over time and replenished annually according to the specific need for which each fund is intended.

The **designated funds** which are reviewed annually in each year's water rate calculation as part of the Five-Year Financial Projection currently include but are not limited to:

- Rate Stabilization Reserve Fund
- Capital Reserve Fund
- Friedgen Scholarship Fund
- PERS Reserve Fund
- OPEB Reserve Fund
- Arbitrage Reserve Fund
- Lake Jennings Recreation Reserve Fund
- Building Maintenance Reserve Fund
- Capacity Fee Reserve Fund

Use of these funds is redirected by the Board as the needs of the District change, and when the fund's special needs are met, the fund balances are transferred to the General Fund.

The fund levels are monitored during budget preparation, during water rate setting, and when a major change in conditions threatens the reserve levels established within these guidelines. Target levels for designated reserves should not exceed the actual needs of the reserve. Staff monitors reserve levels which are not at targeted levels, and/or identifies courses of action to bring reserve levels within desired levels. The balance of reserve funds is important for Board consideration and do have an influence on available resources and rates.

### **Rate Stabilization Reserve Fund**

The purpose of the Rate Stabilization Reserve Fund is to provide funds for the incremental and orderly adjustment of the annual water rate, so as to offset large increases in rates from extraordinary circumstances (drought, lawsuits, or other unbudgeted occurrences). Gradual and small increases in rates enable customers to budget for future years and not be overwhelmed by unusual increases that can result from unexpected environmental and economic changes. Decreases in the rate stabilization reserve balance make the District more vulnerable to risk and the Board determines the level of risk that is desirable.

The Rate Stabilization Reserve Fund is also used to assure that minimum debt service coverage ratios required by the District's bond covenants will be met throughout the term of the District's debt obligation. **The funds will be applied in any year when other revenues are not sufficient to meet the required debt service coverage ratio of 1.20.** The funds may also be applied if meeting only minimum coverage levels could result in the District's bond ratings being downgraded.

The Rate Stabilization Reserve Fund will be maintained at a target balance that is between 5% and 10% of water billing revenue. The fund may be replenished annually from unallocated reserves to a target maximum of 10% of revenue. Any excess can be returned to the General Fund or other designated reserves, prior to the end of each fiscal year.

The Rate Stabilization Reserve Fund is a critical management tool to provide funds necessary to maintain a smooth water rate pattern over a long period of time.

### **Capital Reserve Fund**

The purpose of this fund is to hold funds that are intended for general use on Capital projects. The funds come from contributions from other agencies or from funds that were budgeted on capital projects in prior years but unspent. This fund is spent directly on capital expenditures over the current or future year's normal "PAYGO" budget and is not held in reserve for any other purpose.

This Capital Reserve Fund is drawn down annually as planned capital expenditures above normal PAYGO amounts are made. At the end of each fiscal year, any unspent budgeted Capital PAYGO will be reallocated to this fund and will be used in the following year's Capital Budget. Annual replenishment is reported to the Board as part of preliminary and final budget approvals.

Currently, this fund is providing an accumulation of funds to be applied to the master planned Cast-Iron Pipeline Replacement Project, an \$83 million project planned over a fourteen-year period for the removal of approximately 355,000 feet of cast-iron pipe remaining in the District's distribution system. The contributions from the San Diego County Water Authority, grants, and other appropriate revenue sources will be set aside in this fund.

### **Friedgen Scholarship Fund**

The purpose of this fund is to provide funds to award the annual Robert Friedgen Scholarship of \$1,000. The fund is increased by any interest earned on an annual basis. The minimum amount maintained in the fund is \$20,300, which represents the amount of the original fund donation.

### **PERS Reserve Fund**

The purpose of the PERS designated reserve is to set aside funds to cover future amortized unfunded liability costs that exceed budgeted funds. This fund may be replenished as needed from unallocated reserves when the District must adjust spending to cover projected actuarial costs that have changed due to a change in District PERS rates resulting from investment losses, increased retirements, or the availability of surplus funds (i.e. superfund status).

**OPEB Reserve Fund**

The purpose of this designated reserve fund is to provide “savings” for the future costs of the District’s Other Post Employment Benefits (OPEB) in accordance with GASB 45, namely retirement health costs that are earned by employees and paid during the employees’ retirement. The fund may be increased by each year’s actuarially determined Annual Required Contribution (ARC) and not to exceed the Actuarial Accrued Liability of the OPEB costs. Ultimately this fund may be transferred to a trust fund controlled by a trustee outside of the District in order to comply with GASB 45.

**Arbitrage Reserve Fund**

The purpose of this designated reserve is to set aside funds each year in order to pay required arbitrage fees on interest earned on the District’s 2009 Revenue Bonds. The arbitrage fees are calculated and paid once every five years.

**Lake Jennings Recreation Reserve Fund**

The purpose of this fund is to receive net revenue from the Lake Jennings Recreation Program operations less amortized capital expenditures made since 2005. The fund will only be used for Lake Jennings recreation facility improvements.

**Building Maintenance Reserve Fund**

The purpose of this designated reserve is to set aside funds each year in order to pay for building maintenance projects in future years. Each year an amount will be added to the annual budget to set aside in this fund and accumulated with future years’ allocations. This reserve will be funded and used in accordance with each department’s Building Maintenance Plan.

**Capacity Fee Reserve Fund**

The purpose of this designated reserve is to set aside funds collected each year from the District’s Capacity Fees. The District started collecting Capacity Fees on July 1, 2009. The Buy-In Capacity Fees must be spent on future projects to maintain the District’s current water distribution system. The New Water Capacity Fees must be spent on future projects that develop new sources of water supplies.

**Other Project Specific Capital Funds**

If contributions or general funds are earmarked to a specific project, these new reserve funds can be established. The accumulation of funds will come from sources that have been deemed specific to the project. The fund will only be used for the specific project and the fund balance will not exceed the total estimated project cost.

**RESTRICTED RESERVE FUNDS**

**Debt Service Reserve Fund – 2009 Revenue Bonds**

The Debt Service Reserve Fund includes legally restricted funds for bond reserves and holds the reserve requirements for the 2009 Revenue Bonds. This fund is governed by

legal bond covenants which require that the fund be maintained at a level sufficient to fund maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service payment obligation. Absent such an emergency, reserve funds will be used to make the last two semi-annual debt service payments.

Industry benchmarking states that debt to gross revenues should remain under 8%. However, the Board may determine a debt service cap that will be a higher percentage based on needs of the District. Current debt service is \$1,907,000, or 3% of gross revenues.

Debt issues are used for capital projects which cannot be funded on a PAYGO basis. Long-term debt is not used to fund current operating costs. Debt issues are limited to the amount needed for specific capital projects, do not exceed the useful life of the project, and do not exceed an amount that can be supported by the existing and projected revenue base.

#### Summary

The reserve fund guidelines state that designated reserves will be maintained to allow for funding of the District's operating, capital, and debt service obligations, as well as funding for unforeseen events. Reserves will be established, replenished, and used only in a manner which allows the District to fund costs consistent with the Capital Improvement Program, Five-Year Financial Projection, and other Board adopted master plans, and in a manner that requires minimal annual adjustment to water rates (i.e. "low and smooth"). The District's Reserve Fund Guidelines are annually reviewed and adjusted to meet the needs of the District's customers.

**RESOLUTION NO. 16-306**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF  
THE MISSION HILLS COMMUNITY SERVICES DISTRICT  
AMENDING THE DISTRICT RESERVE POLICY  
(rescinds and replaces Resolution 14-225)**

**WHEREAS**, the Mission Hills Community Services District (the "District") is a community services district duly formed under California Government Code Section 61000 et seq. to provide community services within the District's service area, including water and wastewater services; and

**WHEREAS**, it is the intention of the Board of Directors of the District to maintain the financial health and stability of all the District's systems; and

**WHEREAS**, prudent fiscal management includes the setting of an annual budget and long range planning for the orderly replacement of capital equipment and facilities; and

**WHEREAS**, the purpose of establishing **Operating Reserves** is to ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing water, wastewater and street sweeping services; and

**WHEREAS**, the purpose of establishing **Capital Replacement Reserves** is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives; and

**WHEREAS**, the purpose of establishing **Emergency Reserves** is to provide protection against an unforeseen catastrophic loss and a cushion for inaccuracy in the long range replacement program; and

**WHEREAS**, the policies formalized in this resolution are for the establishment and maintenance of a Reserve Policy for the District.

**NOW, THEREFORE BE IT RESOLVED** by the Board of Directors of the Mission Hills Community Services District that:

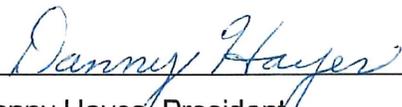
1. The District shall establish and maintain a Depreciation Schedule of assets. The Useful Life Guidelines, published by the Office of the State Controller, and the Straight Line method will be used to calculate monthly depreciation expenses. Depreciation will be included in the annual operating expense budget. The District shall establish rates to generate sufficient revenue to fully fund this depreciation expense and place it in reserves.
2. The goal of the District is to maintain reserves at a level that equals or exceeds the sum of the following components:
  - a. Operating Reserve Requirement: Target balance is **20 percent of the current annual operating expense budget**. This amount is intended to meet cash flow needs and unplanned expenses.

- b. Emergency Reserve Requirement: Target balance is 5 percent of the value of capital assets. This amount is intended as protection against catastrophic loss and to provide a cushion for inaccuracy in long range replacement program.
  - c. Capital Replacement Reserve Requirement: Target balance is 50 percent of the total value of accumulated depreciation. This amount is intended to replace assets and fund capital projects.
3. Reserves will be held, invested and reported in accordance with the District's Investment Policy.
  4. Connection fees, development fees, and funds collected from development agreements paid to the District to serve new developments with water and wastewater services are designated as restricted reserves. They will be deposited into a separate reserve account, invested and reported in accordance with the District's Investment Policy and be used to expand infrastructure and facilities to serve new development. Funds will be administered and maintained in accordance with Government Code § 66013.
  5. This Resolution rescinds and replaces Resolution 14-225
  6. Adoption of this Resolution requires a four-fifths vote of the Board of Directors.

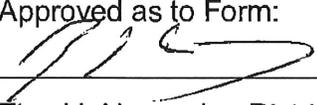
On motion of Director Fasold, seconded by Director Naughton and on the following roll call vote, to wit:

**AYES: Directors: Fasold, Hayes, Naughton, Nix**  
**NOES:**  
**ABSENT:**  
**ABSTAIN: Mac Kenzie (not able to vote based on call in posting requirements)**

The foregoing Resolution was passed and adopted this 20<sup>th</sup> day of July, 2016.

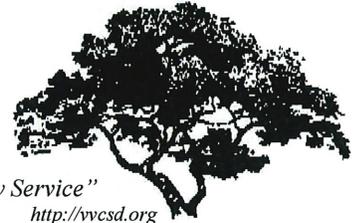
  
\_\_\_\_\_  
Danny Hayes, President  
Board of Directors

Attest   
\_\_\_\_\_  
Casey Fowler, Secretary

Approved as to Form:  
  
\_\_\_\_\_  
Ziyad I. Naccasha, District Counsel

# VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

3757 Constellation Road • Vandenberg Village • Lompoc, CA 93436  
Telephone: (805) 733-2475 • Fax: (805) 733-2109



*"Pride in Community Service"*

<http://vvcasd.org>  
[info@vvcasd.org](mailto:info@vvcasd.org)

## RESOLUTION 176-06

May 2, 2006

### BY THE BOARD OF DIRECTORS OF VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT ESTABLISHING A RESERVE POLICY

WHEREAS, the Board of Directors of Vandenberg Village Community Services District is committed to operating and maintaining the District's water and wastewater systems in a fiscally sound and responsible manner; and

WHEREAS, the Board of Directors desires to provide cost-effective and efficient public services through a stable rate structure and gradual rate increases; and

WHEREAS, during the period 1988 to 2005 when the District was repaying \$5.4 million in revenue bonds, the District was required to satisfy a 20 percent bond covenant in order to demonstrate financial capability to fund operations, capital projects, and debt service; and

WHEREAS, through satisfying the bond covenant and funding depreciation, the District was able to accumulate reserves; and

WHEREAS, although there is no longer a bond covenant requirement, the District plans to continue contributing funds in a regular, disciplined manner to build and sustain reserves at a level sufficient to fund operations, capital projects, and emergencies.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vandenberg Village Community Services District that:



1. The District shall establish and maintain a Depreciation Schedule of assets. The Useful Life Guidelines, published by the Office of the State Controller, and the Straight Line method will be used to calculate monthly depreciation expenses. Depreciation will be included in the annual operating expense budget. The District shall establish rates to generate sufficient revenue to fully fund this depreciation expense and place it in reserves.
2. Depreciation alone is insufficient to fund replacement of equipment, infrastructure, and facilities. Therefore, the District shall incorporate a reserve contribution factor into its rate structure. This factor, expressed as a percentage of the annual water and annual wastewater operating expense budgets, will generate revenues specifically for reserves. The District shall take into account the amount of money available in reserves relative to the goal, investment performance, the timing of planned and foreseeable capital projects, the strategic plan, and other pertinent considerations in approving the reserve contribution factor each year as part of the annual budget approval process.
3. The goal of the District is to maintain reserves at a level that equals or exceeds the sum of the following components:
  - a. Operating Reserve Requirement: 25 percent of the current combined annual operating expense budget. This amount is intended as a cushion to fund three months of operating expenses.
  - b. Capital Reserve Requirement: Accumulated depreciation plus 25 percent of the current combined annual water and wastewater expense budget. This amount is intended to replace assets and fund capital projects.
  - c. Emergency Reserve Requirement: 10 percent of the value of capital assets. This amount is intended as protection against catastrophic loss and to provide a cushion for inaccuracy in long range planning.
4. Reserves will be segregated from operating funds and invested in accordance with the District's investment policy.
5. Connection fees, development fees, and funds collected from development agreements paid to the District to serve new development

Resolution No. 176-06  
May 2, 2006  
Page 3

with water and wastewater services are designated as restricted reserves. They will be deposited into a separate, interest-bearing account and be used to expand infrastructure and facilities to serve new development. Funds will be administered and maintained in accordance with Government Code § 66013.

6. This resolution rescinds and replaces Resolution 99-94.

PASSED AND ADOPTED by the Board of Directors of the Vandenberg Village Community Services District this 2<sup>nd</sup> day of May, 2006 upon motion by Director Wyckoff, seconded by Director Fox and as approved by the following vote:

Roll call vote, to wit:

AYES: Directors Brooks, Fox, Redmon, Rowland, and Wyckoff  
NOES: None  
ABSENT: None  
ABSTAIN: None

**Resolution 176-06 is hereby adopted.**

*/s/ Robert Wyckoff*  
Bob Wyckoff, President  
Board of Directors

ATTEST:

*/s/ Stephanie Vlahos-Rivera*  
Stephanie Vlahos-Rivera  
Secretary to the Board of Directors

# Water Rates in Santa Barbara County

*Report Published February 2023*

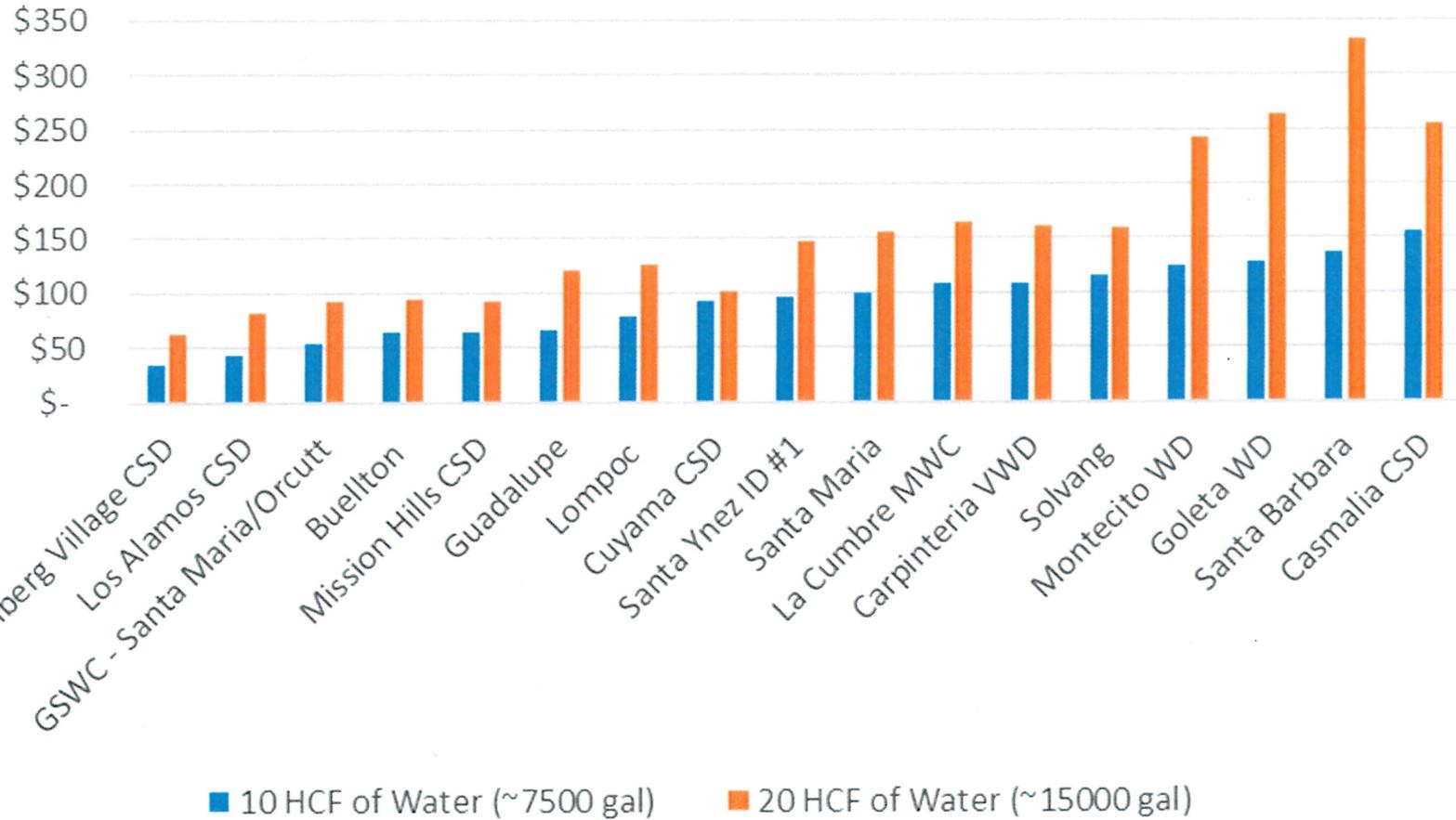
## Ranked: Highest to Lowest

For 10 HCF and 20 HCF Monthly Water Usage

*(single-family residential rate, 5/8" x 3/4" meter, 1/4-acre parcel)*

Agency	10HCF	20HCF	Calculation for 10HCF	Calculation for 20HCF
	\$\$	\$\$	(# HCF x \$rate) + fees & charges	(# HCF x \$rate) + fees & charges
<b>Casmalia</b>	<b>155.50</b>	<b>255.50</b>	90.00 + (655 cu x 0.10)	90.00 + (1655 cu x 0.10)
<b>Santa Barbara</b>	<b>137.21</b>	<b>332.73</b>	(4 x 4.85) + (6 x 14.46) + 31.05	(4 x 4.85) + (12 x 14.46) + (4 x 27.19) + 31.05
<b>Montecito WD</b>	<b>123.78</b>	<b>241.68</b>	(9 x 6.94) + (1 * 11.79) + 49.53	(9 x 6.94) + (11 x 11.79) + 49.53
<b>Goleta WD</b>	<b>128.02</b>	<b>263.56</b>	(6 x 7.01) + (4 x 9.46) + 48.12	(6 x 7.01) + (6 x 9.46) + (8 x 12.06) + 68.26
<b>Solvang</b>	<b>115.88</b>	<b>159.38</b>	(10 x 4.08) + 75.08	(15 x 4.08) + (5 x 4.62) + 75.08
<b>CarpinteriaValley WD</b>	<b>109.09</b>	<b>161.35</b>	((6 x \$3.26) + (4 x \$4.93)) + \$32.42 + \$9.61 + (\$6 x 4.63)	((6 x \$3.26) + (10 x \$4.93) + (4 x \$5.67)) + \$32.42 + \$9.61 + (\$6 x 4.63)
<b>La Cumbre Mutual WC</b>	<b>107.90</b>	<b>165.40</b>	(10 x 5.75) + 50.40	(10 x 5.75) + 50.40
<b>Santa Maria</b>	<b>98.92</b>	<b>156.62</b>	(5 x 5.37) + (5 x 5.57) + 44.22	(5 x 5.37) + (10 x 5.57) + (5 x 5.97) + 44.22
<b>Santa Ynez ID#1</b>	<b>95.69</b>	<b>147.19</b>	(10 x 5.15) + 44.19	(20 x 5.15) + 44.19
<b>Cuyama CSD</b>	<b>93.40</b>	<b>101.30</b>	(10 x 0.79) + 85.50	(20 x 0.79) + 85.50
<b>Lompoc</b>	<b>79.36</b>	<b>125.66</b>	(10 x 4.33) + 36.06	(10 x 4.33) + (10 x 4.63) + 36.06
<b>Guadalupe</b>	<b>65.96</b>	<b>120.96</b>	32.96 + (6 x 5.50)	32.96 + (16 x 5.50)
<b>Mission Hills</b>	<b>65.37</b>	<b>92.35</b>	(10 x 2.31) + 42.01	(9 x 2.31) + (10 * 2.57) + (1 * 3.85) + 42.01
<b>Buellton</b>	<b>65.31</b>	<b>95.11</b>	(10 x 2.98) + 35.51	(20 x 2.98) + 35.51
<b>Golden StateSanta Maria/Orcutt</b>	<b>54.60</b>	<b>92.39</b>	(10 x 3.515) + 19.45	(15 x 3.515) + (5 x 4.042) + 19.45
<b>Los Alamos CSD</b>	<b>42.90</b>	<b>81.90</b>	(10 x 3.90) + 3.90	(20 x 3.90) + 3.90
<b>VandenbergVillage CSD</b>	<b>35.34</b>	<b>62.84</b>	(10 x 1.83) + 17.04	(10 x 1.83) + (10 x 2.75) + 17.04

## Residential Monthly Water charges in Santa Barbara County for 10 HCF and 20 HCF (as of 2/2023)



	10 HCF	20 HCF
<b>Average</b>	\$93	\$156
<b>Median</b>	\$96	\$147