



## NOTICE OF FINANCE COMMITTEE MEETING

**NOTICE IS HEREBY GIVEN** that the San Lorenzo Valley Water District has called a regular meeting of the Finance Committee to be held Wednesday, **March 4, 2015 at 9:00 a.m.** at the Operations Building, 13057 Highway 9, Boulder Creek, California.

### AGENDA

1. Convene Meeting/Roll Call
2. Oral Communications  
*This portion of the agenda is reserved for Oral Communications by the public for items which are not on the Agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of the Committee. Normally, presentations must not exceed three (3) minutes in length, and individuals may only speak once during Oral Communications. No actions may be taken by the Committee on any Oral Communications presented; however, the Committee may request that the matter be placed on a future agenda. Please state your name and town/city of residence at the beginning of the statement for the record.*
3. Old Business:
  - a. RESERVE POLICY  
Discussion and possible action by the Committee regarding reserve policy.  
(attachment)
4. New Business  
*Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.*
  - a. WATER RATES  
Discussion and possible action regarding water rates.
5. Informational Material: None.
6. Adjournment

*In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requires that any person in need of any type of special equipment, assistance or accommodation(s) in order to*

*communicate at the District's Public Meeting can contact the District Office at (831) 338-2153 a minimum of 72 hours prior to the scheduled meeting.*

*Agenda documents, including materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents may also be available on the District website at [www.slvwd.com](http://www.slvwd.com) subject to staff's ability to post the documents before the meeting.*

**Certification of Posting**

I hereby certify that on February 26, 2015, I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 72 hours in advance of the meeting of the Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on February 26, 2015.

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Holly B. Morrison, District Secretary  
San Lorenzo Valley Water District

# **SAN LORENZO VALLEY WATER DISTRICT RESERVE FUND POLICY**

**Adopted January 15, 2009  
Resolution No. 17 (08-09)**

## **Introduction:**

San Lorenzo Valley Water District recognizes the importance of adopted policies relative to reserves and reserve funds. Written adopted financial policies relative to designated reserves and reserve funds have many benefits, and represents a critical element of sound fiscal management. Reserves and reserve funds are prudent fiscal management tools, which are a cornerstone of long-term financial planning. A written and adopted Reserve Fund Policy provides for and facilitates attainment of program and financial goals relative to the prudent accumulation and management of designated reserves and reserve funds. This Reserve Fund Policy was developed to clearly identify specific designated reserves and reserve funds. It is the intent of this Reserve Fund Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District's mission statement, the uniqueness of the District, and the philosophy of the District's Board of Directors. This policy shall be known and may be cited as the San Lorenzo Valley Water District Reserve Fund Policy.

## **Objectives:**

This Reserve Fund Policy has been developed to consider and appropriately provide for the following:

1. To assure continued operation and solvency of the District for the carrying out of its stated mission and purposes.
2. To maintain a financially viable District that can preserve adequate levels of service.
3. To maintain and enhance the sound fiscal condition of the District
4. To maintain financial flexibility in order to be able to continually adapt to change, and permit an orderly adjustment to unanticipated events.
5. To maintain a diversified and stable long-term financial plan.
6. The accumulation and maintenance of an amount equal to the stated target fund level for each specific reserve fund created by the District.
7. The review of this policy on an annual basis in order to determine appropriate changes, additions and/or deletions.
8. To maintain a written San Lorenzo Valley Water District Reserve Fund Policy.

## **Reserve Fund Policy:**

In order to achieve the objectives of this Policy, the Board of Directors shall adhere to the following guidelines:

1. Reserve funds may be established from time to time by the Board of Directors as an important component of sound financial management to meet both short and long-term financial objectives, and to ensure prudent financial management practices.
2. Reserve funds may be designated by the Board of Directors as a “restricted reserve fund” or “non-restricted reserve fund”.
3. Restricted reserve funds shall be segregated, and limited in use to specific and designated purpose(s) as defined and established by the Board of Directors.
4. Assets of a restricted reserve fund shall be held separately from the general Water Fund, and shall only be used for the stated purpose(s) of the specific reserve fund.
5. Non-restricted reserve funds shall have no reference to specific accounting assets.
6. Non-restricted reserve funds do not require the physical segregation of funds.
7. All investment earnings from restricted and non-restricted reserve funds shall be credited to the District’s general Water Fund, unless otherwise stated herein.
8. Board of Director approval shall be required prior to the expenditure of restricted reserve funds, unless otherwise stated herein.
9. The Board of Directors shall maintain a written San Lorenzo Valley Water District Reserve Fund Policy.
10. The Board of Directors shall annually review the San Lorenzo Valley Water District Reserve Fund Policy at a public meeting in order to determine appropriate changes, additions, and/or deletions.

## **Reserve Funds:**

The Board of Directors hereby establishes and designates the following reserve funds:

1. Working Capital Reserve Fund. See Attachment 1.
2. Emergency Reserve Fund. See Attachment 2.
3. Watershed Property Asset Reserve Fund. See Attachment 3.
4. Capital Replacement/System Improvement Reserve Fund. See Attachment 4.
5. Equipment Replacement Reserve Fund. See Attachment 5.
6. Rate Stabilization Reserve Fund. See Attachment 6.
7. Sick/Annual Leave Reserve Fund. See Attachment 7.

## **Target Fund Levels:**

The Board of Directors shall establish a stated target fund level for each designated reserve fund. See Attachment 8 for a compendium of established target fund levels for designated reserve funds.

**Annual Evaluation:**

The District Manager shall perform a review and analysis of each designated reserve funds for presentation to the Board of Directors at a public meeting upon the occurrence of the following:

1. Upon consideration by the Board of Directors of the annual budget.
2. Upon any significant change to and/or expenditure(s) from a designated reserve fund.
3. Upon determination that a fund balance is less than the established target fund level for a designated reserve fund.

- END -

# ATTACHMENT 1

## SAN LORENZO VALLEY WATER DISTRICT WORKING CAPITAL RESERVE FUND

### **Fund Purpose:**

The purpose of the Working Capital Reserve Funds is to accumulate sufficient reserve funds necessary to satisfy the general cash flow demands and requirements of the District. This reserve fund will preserve credit worthiness, ensure adequate financial resources are available for timely payment of District obligations, and provide liquidity throughout the fiscal year.

### **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Working Capital Reserve Fund”.
2. The Working Capital Reserve Fund shall be designated as a non-restricted reserve fund.
3. The District Manger is authorized to approve the expenditure of Working Capital Reserve Funds, without prior approval of the Board of Directors, in response to day-to-day cash flow requirements.
4. The Working Capital Reserve Fund may be invested in financial institutions and instruments which maintain the highest level of liquidity, such as checking, savings and LAIF.
5. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Working Capital Reserve Fund is to maintain a balance in the general Water Fund, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$750,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the general Water Fund equal to approximately two (2) months budgeted expenditures for the fiscal year.
2. For the purpose of this policy, budgeted expenditures shall include all expenditures associated with the following:
  - a. Personnel Services
  - b. Materials & Services

- c. Debt Service (Debit service relative to special assessment districts which are collected with ad valorem tax bills shall not be included for the purpose of this policy guideline.)

## ATTACHMENT 2

### SAN LORENZO VALLEY WATER DISTRICT EMERGENCY RESERVE FUND

#### **Fund Purpose:**

The purpose of the Emergency Reserve Funds is to accumulate sufficient financial reserves necessary to insure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disasters and/or other emergencies.

#### **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Emergency Reserve Fund".
2. The Emergency Reserve Fund shall be designated as a restricted reserve fund.
3. The Emergency Reserve Fund shall be expended solely for the purpose of responding to and maintaining District operations during a natural disaster and/or emergency.
4. The District Manager is authorized to approve the expenditure of Emergency Reserve Funds, without prior approval of the Board of Directors, for purposes of restoration and/or maintenance of essential service levels in response to a natural disaster or other emergency.
5. Upon expenditure of any Emergency Reserve Funds, the District Manager shall notify the Board of Directors at the earliest possible opportunity.
6. Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund.
7. All investment earnings from the Emergency Reserve Fund shall be credited to the District's general Water Fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Emergency Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$1,000,000, unless otherwise directed by the Board of Directors at a public meeting.



## **ATTACHMENT 3**

### **SAN LORENZO VALLEY WATER DISTRICT WATERSHED PROPERTY ASSET RESERVE FUND**

#### **Fund Purpose:**

The purpose of the Watershed Property Asset Reserve Fund is to establish general rules to guide the District's use for the principal received by the District pursuant to the September 22, 2000 sale of the Waterman Gap property.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Watershed Property Asset Reserve Fund".
2. The Watershed Property Asset Reserve Fund shall be designated as a restricted reserve fund.
3. Approval for expenditures from the Watershed Property Asset Reserve Fund shall require the affirmative approval by four (4) members of the Board of Directors at a duly noticed public meeting.
4. All investment earnings from the Watershed Property Asset Reserve Fund shall be credited to the District's general Water Fund.
5. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Watershed Property Asset Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$6,500,000, unless otherwise directed by the Board of Directors at a public meeting.

## **ATTACHMENT 4**

### **SAN LORENZO VALLEY WATER DISTRICT CAPITAL REPLACEMENT/SYSTEM IMPROVEMENT RESERVE FUND**

#### **Fund Purpose:**

The purpose of the Capital Replacement/System Improvement Reserve Fund is to accumulate sufficient reserve funds necessary to insure timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Capital Replacement/System Improvement Reserve Fund".
2. The Capital Replacement/System Improvement Reserve Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Capital Replacement/System Improvement Reserve Fund in an amount approved by the Board of Directors.
4. Monies transferred into the Capital Replacement/System Improvement Reserve Fund shall be expended solely for the construction of new and/or replacement water system infrastructure and capital assets.
5. The District Manger is authorized to approve the expenditure of Capital Replacement/System Improvement Reserve Funds, without prior approval of the Board of Directors, in accordance with approved budget authorizations.
6. All investment earnings from the Capital Replacement/System Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Capital Replacement/System Improvement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$1,250,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the Capital Replacement/System Improvement Reserve Fund equal to approximately five percent (5%) of the District's total net assets.

## ATTACHMENT 5

### SAN LORENZO VALLEY WATER DISTRICT EQUIPMENT REPLACEMENT RESERVE FUND

#### **Fund Purpose:**

The purpose of the Equipment Replacement Reserve Funds is to accumulate sufficient reserves necessary to insure timely replacement and upgrade of the District's vehicles, mobile equipment, and appurtenances thereto. Safe, reliable and up-to-date vehicles and equipment, in good working order, are essential for the provision of public services in a timely and professional manner. Due to the need for depreciation and replacement of vehicles and other mobile equipment it is desirable for the District to set aside funds on an on-going basis for this purpose.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Equipment Replacement Reserve Fund".
2. The Equipment Replacement Reserve Fund shall be designated as a restricted reserve fund.
3. The initial procurement for new vehicles and/or equipment (not replacement of existing) shall be funded by the general Water Fund, not by the Equipment Replacement Reserve Fund.
4. Each adopted budget of the District shall contain an allocation in the sum of \$70,000 for the replacement and/or upgrade of existing vehicles and mobile equipment.
5. In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment is less than said \$70,000 allocation, the remaining balance shall be transferred to the Equipment Replacement Reserve Fund.
6. In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment exceed said \$70,000 allocation, the necessary balance to accomplish the procurement(s) shall be transferred from the Equipment Replacement Reserve Fund.
7. Funds transferred from the Equipment Replacement Reserve Fund shall be expended solely for the purpose of replacement and upgrade of existing District vehicle, mobile equipment and appurtenances thereto.
8. The District Manger is authorized to approve the expenditure of Equipment Replacement Reserve Funds, without prior approval of the Board of Directors, in accordance with approved budget authorizations.

9. The allocation amount shall be reviewed every five (5) years for appropriate vehicle and equipment retention schedules, depreciation schedules and acquisition costs.
10. All investment earnings from the Equipment Replacement Reserve Fund shall be credited to the District's general Water Fund.
11. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

**Target Fund Level:**

The target fund level for the Equipment Replacement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$350,000, unless otherwise directed by the Board of Directors at a public meeting.

## ATTACHMENT 6

### SAN LORENZO VALLEY WATER DISTRICT WATER RATE STABILIZATION RESERVE FUND

#### **Fund Purpose:**

The purpose of the Water Rate Stabilization Reserve Funds is to establish a means to provide more stable water service charges to the District's customers. The Water Rate Stabilization Reserve Fund will be used to accumulate reserves for District use during periods of unanticipated fluctuations in general Water Fund revenues. Unanticipated fluctuations in general Water Fund revenues include, but are not be limited to, periods of drought and /or natural disasters. The Water Rate Stabilization Reserve Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and provide for more stable rates.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Water Rate Stabilization Reserve Fund".
2. The Water Rate Stabilization Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Water Rates Stabilization Reserve Fund in an amount approved by the Board of Directors.
4. Monies transferred from the Water Rate Stabilization Reserve Fund shall be expended solely as directed by the Board of Directors.
5. The District Manger is authorized to approve the expenditure of Water Rate stabilization Funds, without prior approval of the Board of Directors, in accordance with budget authorizations.
6. All investment earnings from the Water Rate Stabilization Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

#### **Target Fund Level:**

The target fund level for the Water Rate Stabilization Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$350,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the Water Rate Stabilization Fund equal to approximately ten percent (10%) of the District's estimated annual revenue to be received from all charges for water service.
2. For the purpose of this policy charges for water service shall be defined as the aggregate sum of all bi-monthly basic service charges and consumptive charges.

## **ATTACHMENT 7**

### **SAN LORENZO VALLEY WATER DISTRICT SICK/ANNUAL LEAVE RESERVE FUND**

#### **Fund Purpose:**

The purpose of the Sick/Annual Leave Reserve Funds is to accumulate sufficient reserves necessary to insure payment of outstanding accrued sick and/or annual leave upon a District employee's separation of service from the District. Pursuant to the current Memorandums of Understanding by and between the District and designated employee representative bargaining group, District employees may accumulate annual leave in accordance with a maximum accumulation schedule. Previous Memorandums of Understanding also provided for the accumulation of Sick Leave. Any employee separated from the service of the District shall receive pay for all accumulated annual/sick leave in accordance with designated schedules. It is desirable for the District to set aside funds on an on-going basis for this purpose.

#### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Sick/Annual Leave Reserve Fund".
2. The Sick/Annual Leave Reserve Fund shall be designated as a restricted reserve fund.
3. Each adopted budget of the District shall contain a transfer from the general Water Fund to the Sick/Annual Leave Reserve Fund approved by the Board of Directors.
4. Monies transferred into the Sick/Annual Leave Reserve Fund shall be expended solely for the purpose of compensation to District employees upon separation of service from the District for accumulated sick/annual leave.
5. The District Manger is authorized to approve the expenditure of Sick/Annual Leave Reserve Funds, without prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the Sick/Annual Leave Reserve Fund shall be credited to the District's general Water Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.



### **Target Fund Level:**

The target fund level for the Sick/Annual Leave Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of \$300,000, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the Sick/Annual Leave Reserve Fund equal to approximately one hundred percent (100%) of the accrued liability for compensated absences.

## ATTACHMENT 8

### SAN LORENZO VALLEY WATER DISTRICT SUMMARY OF RESERVE FUND TARGET FUND LEVELS

| <b><u>RESERVE FUND</u></b>                          | <b><u>TARGET LEVEL</u></b> |
|---|----------------------------|
| Working Capital Reserve Fund.                       | \$ 750,000                 |
| Emergency Reserve Fund.                             | \$1,000,000                |
| Watershed Property Asset Reserve Fund.              | \$6,500,000                |
| Capital Replacement/System Improvement Reserve Fund | \$1,250,000                |
| Equipment Replacement Reserve Fund.                 | \$ 350,000                 |
| Rate Stabilization Reserve Fund                     | \$ 350,000                 |
| Sick/Annual Leave Liability Reserve Fund.           | \$ 300,000                 |

# **THE DISTRICT (PROPOSED) RESERVE FUND POLICY**

## ***Purpose of Reserve Policy***

Adequate designations of reserve funds set aside for various legitimate purposes are critical to the successful and stable, short and long-term operation of the San Lorenzo Valley Water District (the “District”).

Adequate reserves for the District operations ensure that customers experience both stable rates for service and the security that the District can respond to emergencies, especially regarding water and wastewater 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 capital improvement program and budgeted 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.

Annually, during the budget adoption process, the District Board should review and approve the appropriate levels and uses for reserve funds based upon the needs of the District.

This Reserve Fund Policy (the “Policy”) was developed to clearly identify specific designated reserves and reserve funds. It is the intent of this Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District’s mission statement, the uniqueness of the District, and the philosophy of the District’s Board.

## ***Fund Balance Classifications***

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 (Statement 54), Fund Balance Reporting and Governmental Fund Type Definitions in February 2009. Statement 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

Nonspendable – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Restricted – consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.

Committed – consists of amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

Assigned – consists of amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.

Unassigned – represents the residual classification for the government’s general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

### ***Designated Reserve Funds***

#### *Restricted - Debt Service Reserve Fund*

The District requires that this fund be maintained at a level sufficient to fund any debt covenant requirements. Whether funds are held by the debt trustee during the term of the debts or if it is held internally. These are to be used in the event that the District is unable to meet its required semi-annual debt service obligation. Debt services should be part of the annual fiscal budget and will determine the minimum fund requirements.

In accordance with the District’s loan contract No. E51065, a reserve of two semi-annual payments are required to be accumulated and replenished to a fund held by a Fiscal Agent. The semi-annual payments are \$93,398.60, therefore a minimum of \$186,797.20 are required to be held in a restricted fund.

#### *Committed - Emergency Reserve Fund*

The purpose of the Emergency Reserve Funds is to accumulate sufficient financial reserves necessary to insure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District’s essential services during periods of natural disasters and/or other emergencies.

Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund.

The target fund level for the Emergency Reserve Fund is to maintain a balance, as of

July 1st of each fiscal year, equal to a target level of \$1,000,000, unless otherwise directed by the Board at a public meeting.

*Committed - Capital Replacement Reserve Fund*

This fund pays for the replacement of existing facilities and equipment as it reaches the end of its useful life or for major repairs that extend the useful life of facilities. This insures timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

The fund level(s) for the Capital Replacement Reserve Fund is to maintain a minimum balance of \$500,000, with a target level equal to \$2,000,000, unless otherwise directed by the Board at a public meeting. If funds are set below the target level of \$2,000,000, the Board can designate a plan to replenish the fund.

*Committed - Equipment Replacement Reserve Fund*

The purpose of the Equipment Replacement Reserve Funds is to accumulate sufficient reserves necessary to insure timely replacement and upgrade of the District's vehicles, mobile equipment, and appurtenances thereto. Safe, reliable and up-to-date vehicles and equipment, in good working order, are essential for the provision of public services in a timely and professional manner. Due to the need for depreciation and replacement of vehicles and other mobile equipment it is desirable for the District to set aside funds on an on-going basis for this purpose.

The initial procurement for new vehicles and/or equipment (not replacement of existing) shall be funded by the general Water Fund, not by the Equipment Replacement Reserve Fund.

Each adopted budget of the District shall contain an allocation in the sum of \$50,000 for the replacement and/or upgrade of existing vehicles and mobile equipment.

In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment is less than said allocation, the remaining balance shall be transferred to the fund.

In any one (1) fiscal year, whenever the total actual expenditures for replacement and/or upgrade of existing vehicles and mobile equipment exceed said allocation, the necessary balance to accomplish the procurement(s) shall be transferred from the Equipment Replacement Reserve Fund.

With the expectation that these funds will be required on an on-going basis, there is a maximum fund level of \$250,000, unless otherwise directed by the Board at a public meeting.

*Committed – Regional Water System Emergency Intertie, Proposition 50 Reserve Fund*

This capital improvement project will allow the separate water systems within the District to share water supply resources during emergencies such as fire or natural disaster. These projects are currently underway. Once the projects are complete, it is suggested a revised Policy and Attachment A be reviewed to re-balance the funds.

*Assigned – Working Capital Reserve Fund*

The Working Capital Reserve Fund will vary over time with a goal of maintaining three months average operating expenses, excluding depreciation. This reserve is considered a working cash requirement. It bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers. The estimated \$400,000 per month, equating to target level \$1,200,000 three month reserve fund, should be reviewed by the Board during the annual fiscal budget to insure the estimate is still accurate.

*Nonspendable – none at this time*

*Unassigned – none at this time*

***Annual Review***

The District Manager shall perform a review and analysis of each designated reserve funds for presentation to the Board at a public meeting upon the occurrence of the following:

Upon consideration by the Board of the annual budget.

Upon any significant change to and/or expenditure(s) from a designated reserve fund.

Upon determination that a fund balance is less than the established target, minimum or maximum fund level for a designated reserve fund.

As part of the annual review, a summary of the funds and fund level(s) shall be listed out, as well as the anticipated levels for that fiscal year. See Attachment A.

**ATTACHMENT A**

***Summary of Funds***

| <b><i>Reserve Fund</i></b>        | <b><i>Target Level</i></b> | <b><i>Min. Level</i></b> | <b><i>Max. Level</i></b> | <b><i>FY1415 Estimates</i></b> |
|-----------------------------------|----------------------------|--------------------------|--------------------------|--------------------------------|
| Restricted – Debt Service         | \$190,000                  |                          |                          | \$190,000                      |
| Committed - Emergency             | \$1,000,000                |                          |                          | \$1,000,000                    |
| Committed – Capital Replacement   | \$2,000,000                | \$500,000                |                          | \$860,000                      |
| Committed – Equipment Replacement | \$250,000                  |                          | \$250,000                | \$250,000                      |
| Committed – Prop 50               | \$3,100,000                |                          |                          | \$3,100,000                    |
| Assigned – Working Capital        | \$1,200,000                |                          |                          | \$0                            |
| <b>TOTAL</b>                      | <b>\$7,740,000</b>         |                          |                          | <b>\$5,400,000</b>             |