



May 5, 2016

TO: LOCSD Board of Directors
FROM: Peter J. Kampa, Interim General Manager
SUBJECT: **Agenda Item 11D – 5/5/2016 Board Meeting**
Adopt a Resolution Amending the District Reserve Policy

President
Marshall E. Ochylski

Vice President
Jon-Erik G. Storm

Directors
Charles L. Cesena
Louis G. Tornatzky
R. Michael Wright

Interim General Manager
Peter J. Kampa

Temporary District Accountant
Dale G. Flynn

Unit Chief
Scott M. Jalbert

Battalion Chief
Tom McEwen

STAFF RECOMMENDATION

Staff recommends that the Board approve the following action:

Motion: I move that the Board adopt Resolution 2016-14 amending the District's Reserve Policy.

DISCUSSION

District staff has proposed an update of the District's Reserve Policy originally adopted in 2007. The exiting policy is attached hereto as Exhibit A, with additions and deletions to the policy shown in ~~strikeout~~ and underlined text. The majority of the changes are for clarification and to address current issues, such as the high level of revenue loss related to water conservation.

The policy change also adds clarifying language to provide for funds carryover from fiscal year to fiscal year when projects are delayed. Lastly, the new policy directs the establishment of a rate stabilization reserve in the future due to our experience in the current water rate financial issue.

FINANCIAL IMPACT

There is no cost impact to amendment of the policy itself, however funding the Rate Stabilization Reserve will require a substantial future funding commitment.

Attachment: Resolution 2016-14 w/Exhibit A

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RESOLUTION NO. 2016-14

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

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

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

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

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

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

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

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

Ayes: _____
Nays: _____
Absent: _____
Conflicts: _____

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

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

ATTEST:

APPROVED AS TO FORM:

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

Michael W. Seitz
District Legal Counsel

EXHIBIT A

Los Osos Community Services District Reserve Policy

PURPOSE

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

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

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POLICY

Operating (Cash) Reserves

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

Contingency Reserves

The minimum amount of Contingency Reserve, by Fund, will be established annually with the budget. These reserves are maintained for unexpected costs related to daily operations. Differs for funds based on historical evidence or potential for cost variability in the upcoming budget year. Contingency line items in the projects or initiatives contained within the approved budget and for which there remains surplus funds at the end of the fiscal year will transfer to this the appropriate Fund Reserve reserve if not used.

Capital Reserves

Capital reserves will be accumulated to fund infrastructure projects and will be an integral part of the District's capital plan documented in its ~~Ten-Year~~ Forecast financial forecasts and approved Capital Improvement Plans (CIP). Funding targets and annual reserve accrual rates shall be established for each Capital Reserve Fund upon its creation. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense, complete advance planning, design and permitting on projects to maximize grant potential and to maintain

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

Rate Stabilization Fund

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

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PROCEDURE FOR USING RESERVE FUNDS

Operating and Contingency Reserves

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

Capital Reserves

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

Rate Stabilization Fund

The ~~Chief Financial Officer~~General Manager is authorized to use rate stabilization funds to supplement operating revenue when:

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

PROCEDURE FOR MONITORING RESERVE LEVELS

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

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

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

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