

RESOLUTION NO. 2019-14

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE SAN MIGUEL COMMUNITY SERVICES DISTRICT  
APPROVING THE DISTRICT RESERVE POLICY**

**WHEREAS**, the San Miguel Community Services District (“District”) operates five distinct funds: Fire (fund 20), Street Lighting (fund 30), Wastewater (fund 40), Water (fund 50), and Solid Waste (fund 60), and

**WHEREAS**, the Board of Directors recognizes a need to have reserve funds for unanticipated, unforeseeable or planned operational fund deficiencies; and

**WHEREAS**, the Board of Directors recognizes a need to reserve funds for unanticipated, unforeseeable, and planned repair, or replacement of equipment, vehicles, facilities and infrastructure; and

**WHEREAS**, the Board of Directors recognizes that the District’s ability to issue bonds for working capital and the repair or replacement of equipment, vehicles, facilities and infrastructure is limited; and

**WHEREAS**, the Board of Directors desires to avoid the cost of debt issuances and ongoing interest expense, and

**WHEREAS**, the Board of Directors believes that it is more prudent to collect funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure from current customers who benefit from the District’s services and use of the District’s systems, and

**WHEREAS**, the Statement of Reserve Policy of the “District” is as follows:

**Section 1: Operating funds**

**All departments (FUND 20, 30, 40, 50, 60)**

**Purpose:** To ensure sufficient operating cash resources are available to fund daily administration, operations and maintenance of providing services to the community.

**Target Criteria:** To meet each Departments cash flow needs and unbudgeted expenses. The operating cash reserves should be equal to or greater than six (6) months or 180 days of annual budgeted operating expenses (not including budgeted projects or other capital replacement).

As part of the annual budget approval the Board will review the reserves of all the departments.

Any excess operating revenues may, by resolution, be transferred to other reserves accounts

Anticipated Operating fund deficiencies shall be funded in the following order for each effected department:

1. Transfer from Stabilization funds (if applicable) - Through the annual budget process
2. Transfer from Capital Reserves – Through resolution of the Board
  - a. Must be accompanied by a repayment schedule

In order to meet the target, the District shall not transfer any operating funds from any department until the target is met.

**Section 2: Post-Employment Benefit Reserves**

To the extent, the “District” has or acquires post-employment benefits, then the “District” shall maintain a reserve level necessary to eliminate the required recorded obligation to fund these identified benefits, in accordance with Governmental Accounting Standards guidelines or pronouncements, in cash equivalents and investments.

Initial and ongoing funding for this reserve will be made through the annual budget process by all departments. The anticipated funding requirement for each department will be determined by the standard split as approved in the annual budget.

Anticipated post-employment reserve deficiencies shall be funded in the following order:

1. Operating funds - Through the annual budget process
2. Transfer from Stabilization funds (if applicable) – Through the annual budget process
3. Transfer from Capital Reserves – Through resolution of the Board
  - a. Must be accompanied by a repayment schedule

**Section 3: Debt service Reserves**

To the extent, the “District” has or acquires debt service reserve requirements, then the “District” shall maintain, in a separate account, minimum funds necessary to satisfy those reserve levels required by the loan/ debt service contract/ agreement.

The General Manager shall fund the debt service reserve account to the level required by the debt servicer(s) prior to the beginning of each fiscal year (June 30<sup>th</sup>).

Funds shall remain in the reserve account until such time as the loan or debt is paid in full and such funds are no longer required to be held.

**Section 4: Stabilization Funds**

**Wastewater and Water Department Stabilization reserves**

**Purpose:** To establish a “rainy day” buffer for wastewater and water rates during any period where there are unexpected increases in operating costs or decreases in revenues. In addition, in a severe drought, extremely wet conditions or any other disaster situation, it is reasonable to expect that water sales could fluctuate significantly. As such, this fund will absorb

these types of fluctuations in operations and assist in stabilizing rates and enable smoothing or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund shall not be used to artificially suppress rates (i.e. to maintain or sustain rates at levels below the costs of service).

**Target Criteria:** The Stabilization reserves should be equal to or greater than one third of the annual budgeted operating expenses for wastewater and water respectively (not including budgeted projects or other capital replacement).

As part of the annual budget approval the Board will review the reserves of all the departments.

Any deficiencies in operating revenues for wastewater and water may, by resolution, be transferred from stabilization reserves, if there will not be sufficient reserves in the Operating funds as outlined in section 3 above.

In order to meet, and maintain the target, the District shall transfer any excess operating funds, after the obligations of section 3 above are met, from the wastewater and water departments respectively until the target is met.

## **Section 5: Capital Reserve Funds**

**Connection fees and Impact fees will be deposited to and maintained in the Capital reserve until such time that they are approved for use by resolution.**

### **Fire Department (FUND 20)**

**Purpose:** To ensure sufficient capital resources are available to fund replacement of equipment, vehicles, and facilities.

**Target Criteria:** Minimum capital reserve requirement of \$200,000

Funds may only be transferred from this capital reserve account by one of the following:

- Through a Board approved resolution for capital purchases, projects or replacements.
- Through a Board resolution to loan the funds for an immediate operational need
  - Must provide a repayment plan
  - Must provide justification for the Loan

Funds may be transferred into the Capital reserve account after the obligations under all sections above are met.

### **Lighting Department (FUND 30)**

**Purpose:** To ensure sufficient capital resources are available to fund replacement of equipment, vehicles, facilities and infrastructure.

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

Funds may only be transferred from this capital reserve account by one of the following:

- Through a Board approved resolution for capital purchases, projects or replacements.
- Through a Board resolution to loan the funds for an immediate operational need
  - Must provide a repayment plan
  - Must provide justification for the Loan

Funds may be transferred into the Capital reserve account after the obligations under all sections above are met.

## **Wastewater Department (FUND 40)**

**Purpose:** To ensure sufficient capital resources are available to fund replacement of equipment, vehicles, facilities and infrastructure.

The District will, starting in Fiscal year 2019-20, begin budgeting and transferring to the capital fund an amount equal to 1/10<sup>th</sup> the projected replacement cost of the membranes needed to be replaced at the WWTF. In this manner the District shall ensure that there are sufficient funds available for the replacement of membranes at the projected 10-year mark. These funds must not be used for anything other than the replacement of the membranes or other long-term maintenance of the WWTF.

**Target Criteria:** Minimum capital reserve requirement of \$500,000

Funds may only be transferred from this capital reserve account by one of the following:

- Through a Board approved resolution for capital purchases, projects or replacements.
- Through a Board resolution to loan the funds for an immediate operational need
  - Must provide a repayment plan
  - Must provide justification for the Loan

Funds may be transferred into the Capital reserve account after the obligations under all section above are met.

## **Water Department (FUND 50)**

**Purpose:** To ensure sufficient capital resources are available to fund replacement of equipment, vehicles, facilities and infrastructure.

**Target Criteria:** Minimum capital reserve requirement of \$500,000

Funds may only be transferred from this capital reserve account by one of the following:

- Through a Board approved resolution for capital purchases, projects or replacements.
- Through a Board resolution to loan the funds for an immediate operational need
  - Must provide a repayment plan
  - Must provide justification for the Loan

Funds may be transferred into the Capital reserve account after the obligations under all sections above are met.

**WHEREAS**, this resolution rescinds any and all previously adopted reserve policies, and

**NOW, THEREFORE, BE IT RESOLVED** by the Board of Directors of the San Miguel Community Services District as follows:

The Statement of Reserve Policy is hereby approved, and the District General Manager is directed to follow this Statement of Reserve Policy in managing available funds and investments of the District.

On Motion of Director Sangster, Seconded by Director Parent and

**PASSED AND ADOPTED** by the Board of Directors of the San Miguel Community Services District at a regular meeting held on this 28<sup>th</sup> day of March 2019, by the following roll call vote:

**AYES: Parent, Palafox, Sangster, Green**

**NOES:**

**ABSTAIN:**

**ABSENT: Kalvans**

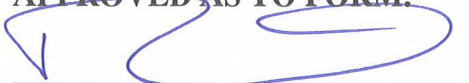


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John Green, President  
San Miguel Community Services District  
Board of Directors

**ATTEST:**

  
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Rob Roberson, Interim General Manager

**APPROVED AS TO FORM:**

  
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Douglas L White, General Counsel