

TO: BOARD OF DIRECTORS

FROM: MICHAEL S. LEBRUN  
GENERAL MANAGER

DATE: OCTOBER 3, 2013

**AGENDA ITEM**

**E-2**

**OCTOBER 8, 2014**

## **ANNUAL REVIEW OF CASH RESERVES IN ACCORDANCE WITH RESERVE POLICY**

### **ITEM**

Annual review of Cash Reserves in accordance with Cash Reserve Policy [RECOMMEND RECEIVE REPORT]

### **BACKGROUND**

On December 12, 2012, the Board of Directors adopted Resolution 2012-1285, *A Resolution Approving the Adoption of the Cash Reserve Policy for the District*. On September 24, 2014, the Board of Directors adopted Resolution 2014-1357 *Amending Cash Reserve Policy (attached)*.

For Funds #125, #130 and #150, the policy states, "After the adoption of the budget and within 90 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 requirements based on the cash reserve balance of the fiscal year just completed, the Directors may approve a transfer of the excess to Funded Replacement."

This policy review has been delayed several weeks due the amendment to the policy.

A summary of cash reserve balances and transfer recommendations for the various funds addressed by the policy is attached for your review.

### **FISCAL IMPACT**

None

### **STRATEGIC PLAN**

Strategic Plan Goal 4 – Maintain conservative, long-term financial management to minimize rate impacts on customers while meeting program financial needs.

### **RECOMMENDATION**

Staff recommends the Board of Directors by motion and roll call vote make the following findings and direction:

1. Cash Reserve Goals have not been met for Fund 125 and 130 as of June 30, 2014, and
2. Transfer \$58,000 from Blacklake Sewer Fund 150 to Funded Replacement-Blacklake Sewer-Fund 820

### **ATTACHMENTS**

- A. FY 14-15 Annual Cash Reserve Policy Review
- B. Cash Reserve Policy

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ATTACHMENT A

NIPOMO COMMUNITY SERVICES DISTRICT  
CASH RESERVE POLICY REVIEW

FY 14-15

(A) FUND NAME	(B) FUND NUMBER	(C) CASH RESERVE FORMULA	(D) ADOPTED OPERATING BUDGET 2014-2015 (Total Operating Expenses Less Funded Replacement)	(E) CASH RESERVE GOAL (C) * (D)	(F) CASH BALANCE AS OF 6/30/14	TRANSFER TO FUNDED REPLACEMENT RECOMMENDED?
Water Fund	125	360 days (12 months or 100%) of operating expenses	\$3,069,537	\$3,069,537	\$1,882,627	No (1)
Town Sewer Fund	130	180 days (6 months or 50%) of operating expenses	\$1,009,392	\$504,696	\$400,485	No (2)
Blacklake Sewer Fund	150	180 days (6 months or 50%) of operating expenses	\$305,721	\$152,861	\$211,193	Yes (3)

(1) Water Fund

The reserve goal has not been met.

(2) Town Sewer Fund

The reserve goal has not been met.

(3) Blacklake Sewer Fund

A transfer to Funded Replacement is recommended.

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ATTACHMENT B

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 should be equal to or greater than twelve months (365 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 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 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 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 90 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 to the Funded Replacement Town Sewer Fund #810.

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**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 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 90 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 to the Funded Replacement Blacklake Sewer Fund #830.

**WATER RATE STABILIZATION FUND (PROPOSED)**

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.

**BLACKLAKE SEWER RATE STABILIZATION FUND (PROPOSED)**

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.

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**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 \$115,000.

**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.

**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: Based on 2007 or current Replacement Study.

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**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: Based on 2007 or current Replacement Study.

**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: Based on 2007 or current Replacement Study.

**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)



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Target Criteria: No minimum target is maintained, however, a portion of the annual property tax revenue stream is pledged to pay the annual debt service for the 2003 Certificates of Participation Revenue Bond.

**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.

**SINKING FUND – TOWN SEWER (FUND #880)**

Purpose: The reserves may be used to pay annual debt service payments for the Revenue Certificates of Participation (Southland Wastewater Project) Series 2012. (Funded by Town sewer rates and charges in years 2008 – 2012 in anticipation of the Southland Wastewater Treatment Facility Upgrade)

Target Criteria: No minimum target is maintained. Once the reserves in this fund are depleted, the fund will be terminated.