

TO: BOARD OF DIRECTORS

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER 

FROM: LISA BOGNUDA
FINANCE DIRECTOR 

DATE: NOVEMBER 3, 2017

**AGENDA ITEM
D-3
NOVEMBER 8, 2017**

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 March 22, 2017, the Board of Directors adopted Resolution 2017-1435 Amending the Cash Reserve Policy for the District (attached).

The policy states in part that 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 requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of excess balances from operating funds to funded replacement funds.

In accordance with the Cash Reserve policy, attached is a two page table providing a review of each Fund's cash reserve target criteria, the cash balance as of June 30, 2017, determination if target criteria has been met and recommendation, if any.

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 receive and file report and direct staff to bring back recommendations included in the table for review and consideration at a future time.

ATTACHMENTS

- A. FY 16-17 Cash Reserve Policy Review
- B. Cash Reserve Policy

November 8, 2017

ITEM D-3

ATTACHMENT A

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY REVIEW
FY 16-17

FUND NAME	FUND NUMBER	CASH RESERVE TARGET CRITERIA	CASH RESERVE GOAL AMOUNT ADOPTED OPERATING BUDGET 2017-2018 (Total Operating Expenses Less Funded Replacement)	CASH BALANCE AS OF 6/30/17 (including Rate Stabilization Fund)	CASH RESERVE CRITERIA MET?	RECOMMENDATION
Water Fund	125	Equal to or greater than twelve months (360 days) of annual budgeted operating expenses (not including Funded Replacement) Including Water Rate Stabilization Fund #128	\$4,882,789- \$580,000= \$4,302,789	Fund #125 and Fund #128 \$1,410,352 + \$406,280= \$1,816,632	No	No action recommended at this time
Town Sewer Fund	130	180 days (6 months or 50%) of operating expenses (not including Funded Replacement) Including Water Rate #135	\$1,730,054- \$395,000= \$1,335,054	Fund #130 and Fund #135 \$980,385 + \$305,506 = \$1,285,891	No	No action recommended at this time
Blacklake Sewer Fund	150	180 days (6 months or 50%) of operating expenses (not including Funded Replacement) Including Water Rate #155	\$504,752- \$168,000= \$336,752	Fund #150 and Fund #155 \$215,372 + \$50,785 = \$266,157	No	No action recommended at this time

FUND NAME	FUND NUMBER	Cash Reserve Target Criteria	CASH BALANCE AS OF 6/30/17	CASH RESERVE CRITERIA MET?	RECOMMENDATION
Water Rate Stabilization Fund	128	\$400,000	\$406,280	Yes	No action recommended at this time
Town Sewer Rate Stabilization Fund	135	\$300,000	\$305,506	Yes	No action recommended at this time
Blacklake Sewer Rate Stabilization Fund	155	\$50,000	\$50,785	Yes	No action recommended at this time
Blacklake Street Lighting Fund	200	\$30,000	\$24,011	No	Consider increasing annual assessment for FY 18-19 (current annual assessment is \$44.00 max allowable is \$50.00 without a Prop 218)
Landscaping Maintenance District	250	\$20,000	\$22,042	Yes	No action recommended at this time
Solid Waste	300	\$115,000	\$316,028	Yes	Consider solid waste projects
Drainage	400	\$50,000	\$64,718	Yes	Resolution 00-733 states tax revenues that exceed the established reserves may be transferred to the Property Tax Fund as part of the District's budget process on a fiscal year basis.

November 8, 2017

ITEM D-3

ATTACHMENT B

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2017-1435**

**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 Eby, seconded by Director Armstrong, on the following roll call vote, to wit:

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

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2017-1435**

**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 22nd day of March 2017.



DAN A. GADDIS
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 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 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 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 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 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 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 \$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.

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: Based on 2007 or current Replacement Study

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.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT "A"

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.

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.

TO: BOARD OF DIRECTORS
REVIEWED: MARIO IGLESIAS
GENERAL MANAGER 
FROM: PETER V. SEVCIK, P.E. 
DIRECTOR OF
ENGINEERING & OPERATIONS
DATE: NOVEMBER 3, 2017

**AGENDA ITEM
D-4
NOVEMBER 8, 2017**

ACCEPT 2017 UTILITY ADJUSTMENT PROJECT

ITEM

Accept work performed by R. Burke Corporation for 2017 Utility Adjustment Project and authorize staff to file Notice of Completion [RECOMMEND, BY MOTION AND ROLL CALL VOTE, ACCEPT PROJECT AND DIRECT STAFF TO FILE NOTICE OF COMPLETION].

BACKGROUND

On June 28, 2017, the Board awarded a construction contract for the 2017 Utility Adjustment Project to R. Burke Corporation. The work involved the adjustment of District sanitary sewer manholes and water valve covers impacted by the County of San Luis Obispo asphalt overlay project in Nipomo. Construction has been completed.

FISCAL IMPACT

Construction Contract Cost Summary	
Original Contract Amount	\$197,720
Final Contract Amount	\$171,021

STRATEGIC PLAN

Goal 2. FACILITIES THAT ARE RELIABLE, ENVIRONMENTALLY SENSIBLE AND EFFICIENT. Plan, provide for and maintain District facilities and other physical assets to achieve reliable, environmentally sensible, and efficient District operations.

RECOMMENDATION

Staff recommends that the Board, by motion and roll call vote, accept the project and authorize the General Manager to file a Notice of Completion for the project.

ATTACHMENTS

None

TO: BOARD OF DIRECTORS

FROM: MARIO IGLESIAS
GENERAL MANAGER



DATE: NOVEMBER 3, 2017

**AGENDA ITEM
D-5
NOVEMBER 8, 2017**

AUTHORIZE THE GENERAL MANAGER TO EXECUTE ALL DOCUMENTS NECESSARY TO OBTAIN PERMITS ASSOCIATED WITH THE EUREKA WELL REPLACEMENT PROJECT, INCLUDING A GUARANTEE AND AGREEMENT TO INDEMNIFY THE COUNTY OF SAN LUIS OBISPO

ITEM

Authorize the General Manager to execute all documents, applications, and guarantees necessary to obtain permits associated with the Eureka Well Replacement Project, including but not limited a Guarantee and Agreement to Indemnify the County of San Luis Obispo [RECOMMEND AUTHORIZE GENERAL MANAGER TO EXECUTE ALL DOCUMENTS NECESSARY TO OBTAIN PERMITS ASSOCIATED WITH THE EUREKA WELL REPLACEMENT PROJECT, INCLUDING BUT NOT LIMITED TO A GUARANTEE AND AGREEMENT TO INDEMNIFY THE COUNTY OF SAN LUIS OBISPO]

BACKGROUND

The Nipomo Community Services District ("District") has a permit to operate a Public Water System (PWS) from the California Water Board. The District fulfills its obligations and responsibilities for providing municipal and industrial water to users within its approved boundaries and through contract obligations.

The District depends on two sources of water supply to meet its customer's water needs: groundwater pumped from its groundwater wells, and a supplemental water supply imported onto the Mesa through the Nipomo Supplemental Water Supply Project. From time to time, the groundwater wells must be replaced due to material degradation and failure, siltation around the well, and/or a number of other conditions.

Drilled in 1974, the Eureka Well has been in production and serving as one of the District's major sources of groundwater supply. The Eureka Well was taken off-line in 2016 due to a failed well casing. The District is in the process of securing permits from the County of San Luis Obispo ("County") to drill a replacement well. The County is requiring the District to provide a Guarantee and Agreement to Indemnify the County ("Agreement").

District General Counsel negotiated the Agreement with County Counsel and is recommending the District sign the Agreement. The Agreement assigns all responsibility for the abandonment of the old well and the drilling of the new well to the District. As a PWS regulated by the California Water Board, these responsibilities are conditions of the District's operating permit. The County is seeking the Agreement because the District does not own the property in-fee and is limited in its ability to act against those who violate County Code. Because the District's well is located on an easement, the County is concerned that disputes may arise between the

District and the fee title owner regarding responsibility for the well drilling and abandonment and that any such disputes could implicate the County. The Agreement provides the County with the guarantee the District will take responsibility for properly abandoning and drilling wells on this site.

FISCAL IMPACT

There are no additional permit costs imposed on the District by the County for the added Agreement. District General Counsel dedicated time to negotiate, but this time is within the budget for legal services. Authorizing the General Manager to execute other permit-related documents in the future will streamline the process and thereby lower staff costs.

RECOMMENDATION

Staff recommends that the Board authorize the General Manager to execute all documents necessary to securing permits for the Eureka Well Project, including but not limited to a Guarantee and Agreement to Indemnify San Luis Obispo County.

ATTACHMENTS:

- A. Guarantee and Agreement to Indemnify

November 8, 2017

ITEM D-5

ATTACHMENT A

GUARANTEE AND AGREEMENT TO INDEMNIFY

WHEREAS, the Nipomo Community Services District (“District”) is the holder of a permanent exclusive easement for water well purposes on a portion of the property commonly known as Assessor’s Parcel Number 091-192-052 (“Subject Property”) as described in the Grant of Easement and Water Service Agreement Affecting Real Property recorded in the Official Records of the County of San Luis Obispo on March 21, 1980 as Document No. 12062 (“Grant of Easement”); and

WHEREAS, the District has constructed a well (“Existing Well”) on the Subject Property pursuant to the terms and conditions set forth in the Grant of Easement; and

WHEREAS, the District desires to replace the Existing Well with a new well (“New Well”) and has submitted a Well Destruction Permit Application (Permit No. 2017-040) and will submit a Well Construction Permit Application (collectively, “Applications”) to the County of San Luis Obispo (“County”) Environmental Health Services in order to complete the well replacement project; and

WHEREAS, the Applications require that the property owner sign the Applications; and

WHEREAS, the District contends that the Grant of Easement authorizes the District to sign the Applications as the relevant property owner; and

WHEREAS, based on the foregoing:

1. The District hereby guarantees that it has the right, power and authority to execute the Applications as the relevant property owner and in lieu of the fee title or servient tenement owner and to undertake the work described therein on the Subject Property. The District hereby further guarantees the complete, professional and satisfactory performance by the permittee (i.e. the well driller) of the work described in the Applications. Without limiting the foregoing or in any way altering the obligations of the permittee under Chapter 8.40 of the San Luis Obispo County Code (“County Code”), including, but not limited to, County Code Section 8.40.040(d), the District agrees to be joint and severally liable, and to promptly compensate the County, for any costs incurred by the County in ensuring that the Existing Well is destroyed, and the New Well is constructed, in compliance with the terms, conditions and standards imposed by Chapter 8.40 of the County Code and the permits (“Permits”) issued in connection with the Applications.

2. The District hereby agrees to defend, indemnify and hold harmless the County and its officers and employees from any and all demands, costs, expenses, judgments, attorney fees or liabilities that may be asserted by the fee title or servient tenement owner of the Subject Property arising out of or in connection with the Permits or any work performed pursuant thereto.

[SIGNATURE TO FOLLOW ON NEXT PAGE]

NIPOMO COMMUNITY SERVICES DISTRICT

By: _____
Mario Iglesias

Its: General Manager

Date: _____