

TO: FINANCE AND AUDIT COMMITTEE
FROM: MARIO IGLESIAS
GENERAL MANAGER
DATE: AUGUST 2, 2018

AGENDA ITEM
2
AUGUST 6, 2018

**REVIEW SOLID WASTE FUND #300 CASH RESERVE POLICY
AND EVALUATE USE OF FUNDS**

ITEM

Review Solid Waste Fund #300 Cash Reserve Policy and evaluate use of funds
[RECOMMEND REVIEW POLICY AND CONSIDER USE OF FUNDS]

BACKGROUND

The Finance and Audit Committee ("Committee") met on July 19, 2018 at the direction of Board President Eby. President Eby assigned the Committee with the task of: (1) evaluating the Cash Reserve Policy for Solid Waste Fund #300, and (2) review appropriate uses for monies received in Fund #300. At the July 19, 2018 Committee Meeting, staff was tasked with providing information for the Committee's review and consideration. The information requested is provided in the attached August 2, 2018 Memo to the Committee [Attachment A].

For reference purposes, the July 19, 2018 Committee agenda Item 2 is attached for review as is District Resolution 2017-1435 amending the cash reserve policy. The Committee may choose consider the additional information and include it in their evaluation process. The Board of Directors is looking to the Committee to provide recommendations on how best to apply the funds generated by the franchise agreement for the benefit of the community it serves.

FISCAL IMPACT

The District has an estimated cash balance of \$289,000 at the end of Fiscal Year 2018-19. The impact of maintaining this balance exceeds the current cash reserve level and may be unwarranted.

STRATEGIC GOAL

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

B.1 Evaluate, plan for and maintain finances that are adequate for all needs, stable, and reliable over the long-term.

Goal 6. GOVERNANCE AND ADMINISTRATION. Conduct District activities in an efficient, equitable and cost-effective manner.

A.1 Periodically review, update and reaffirm District policies and procedures.

RECOMMENDATION

Staff recommends Committee review and discuss the District's Cash Reserve Policy for Solid Waste Fund #300 with the additional information provided in the attached Memo and to consider appropriate uses of these funds for the purpose of preparing a recommendation for the District's Board of Directors to consider.

ATTACHMENTS

- A. August 2, 2018 Memo to Finance and Audit Committee
- B. July 19, 2018 Finance and Audit Committee Meeting Agenda Item 2 – Staff Report
- C. Nipomo CSD Resolution 2017-1435, Amending Cash Reserve Policy

August 6, 2018

ITEM 2

ATTACHMENT A

NIPOMO COMMUNITY

BOARD MEMBERS

ED EBY, PRESIDENT
DAN ALLEN GADDIS, VICE PRESIDENT
BOB BLAIR, DIRECTOR
CRAIG ARMSTRONG, DIRECTOR
DAN WOODSON, DIRECTOR



SERVICES DISTRICT

STAFF


MARIO IGLESIAS, GENERAL MANAGER
LISA BOGNUDA, FINANCE DIRECTOR
PETER SEVCIK, P.E., DIRECTOR OF ENG. & OPS.
WHITNEY MCDONALD, GENERAL COUNSEL

Serving the Community Since 1965

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Memo

TO: Nipomo CSD Finance & Audit Committee

FROM: Mario Iglesias 
General Manager

DATE: August 2, 2018

SUBJECT: Solid Waste Fund #300 – Additional Information

Direction from Finance and Audit Committee ("Committee") after July 19, 2018 Committee Meeting was to provide additional information for Committee Members as follows:

Investigate

1. *How many other CSDs in our area have similar arrangements (have franchises) with Garbage Company?*
2. *Is there a scenario where the Garbage Company would be unable to perform their duties as defined in the agreement?*
3. *Would the Garbage Company be willing to share their route and billing information in the event they were unable to perform their duties as defined in the agreement? Any scenarios that would prevent them from sharing this information?*

Develop Pros and Cons

1. *Spending Fund #300 money on Programs such as Clean Streets, Creek Clean-up, special events*
2. *County take-over of enterprise*
3. *Having a cash reserve balance for Fund #300*

Details and Responses

1. *How many other CSDs in our area have similar arrangements (have franchises) with Garbage Company?*

There are 3 other CSDs staff identified with a similar franchise agreement with the Garbage Company. Los Osos CSD did have a franchise but relinquished it during a bankruptcy proceeding. Of the three CSDs with active franchise agreements – Templeton, Heritage Ranch, and Oceano, each has addressed the issue of cash reserves in their own way.

- Templeton CSD – Cash Reserve language is included in Templeton’s Strategic Financial Policies. The General Manager stated that all funds maintain a 25% balance of that year’s budgeted operating expenditures in cash reserves (currently \$100,000 in operating expenditures)
- Oceano CSD – No reserve policy. Has a balance of \$250,000 in Solid Waste Fund gained from franchise fee. Fees used for community clean-up events, commercial area garbage receptacle maintenance and pickup.
- Heritage Ranch CSD – Cash Reserve policy targets \$100,000 to be used “for removal of solid waste and/or hazardous materials from a natural or man-made disaster.”

2. *Is there a scenario where the Garbage Company would be unable to perform their duties as defined in the agreement?*

While not specifically asking this question, I asked the General Manager of the Garbage Company, Mr. Jeff Smith, about scenarios that could make it difficult for them to perform their duties.

(1) What if there is a disaster so great that people cannot pay their garbage bill

(2) What if the franchisee servicing the community is unable to perform the duty.

My experience with this has been slightly different and focused on natural disasters rather than paying invoices during default of payment. The challenge may be that in a disaster situation, FEMA will require special disposal controls and costs could be adjusted. However, in just your scenario as noted in Number 1 below, the average monthly billing for Nipomo is approx. \$75,200.

In the second part of your question, there are a couple things to note. First, we have a performance bond to offset those costs if something developed and we were unable to perform. With that said, one thing dynamic about our company is that yes, we are a local hauler, but we also have national support. If there were an emergency, we have the ability to pull resources from around the country whether it be trucks or people to assist in emergency service situations. Depending on the circumstances, prices could be higher than normal if people and equipment had to be brought in from around the country. However, to identify that rate would depend on the type of emergency and is somewhat of a best guess. I think, for your purposes, you could safely assume double the monthly cost for 90 days of services might be adequate for staging equipment and providing services. (J. Smith, GM, SCS)

Another plausible scenario brought up at the F&A Committee is the issue of Bankruptcy. If the franchisee were in that position, the District would need to find another company and would be subject to the new company's pricing. Mr. Smith recommends the District plan for a 90-day initial interim contract, and doubling the current \$75,200 average monthly cost of service to account for potential incremental emergency costs. This would then bring the three month operating costs to \$450,000. Because customers will still be responsible for their monthly cost of service, the District could plan for paying the incremental costs. In this scenario, the incremental cost is \$75,000 per month or \$225,000 for the 90 days of an interim agreement.

3. *Would the Garbage Company be willing to share their route and billing information in the event they were unable to perform their duties as defined in the agreement? Any scenarios that would prevent them from sharing this information?*

The General Manager expressed his regrets, but he would be unable to share this information should we request it.

PROS AND CONS

1. Spending Fund #300 money on Programs such as Clean Streets, Creek Clean-up, special events.

Pros:

- a. Health and safety of the community
- b. Reduces community exposure to roadside dumping
- c. Improves the aesthetics of the community
- d. Limited public relations benefit

Cons:

- a. District responsible for developing spending plans and programs
- b. Program Failures
- c. Time and effort away from Water and Wastewater Enterprises
- d. Non-District customers benefit from Fund 300 programs

2. County take-over of enterprise

Pros:

- a. District has more time to focus on Water and Wastewater Enterprises
- b. District would not responsible for projects and programs

Cons:

- a. Cost of garbage service may increase (see Table A below)
- b. County can use Franchise Fees for other purposes, i.e. Roads
- c. No local control over projects and programs

As shown in Table A below, the cost of service inside District boundaries verses the cost of service on neighboring properties outside District boundaries varies. If County takes over Solid Waste, then collection becomes voluntary and costs inside the District boundaries area likely to increase as people elect not to have service.

TABLE A.

<i>Container</i>	<i>NCSD Monthly Rate*</i>	<i>NCSD Nonsubsidized</i>	<i>County Monthly Rate</i>	<i>Difference in Cost</i>	<i>Percentage Difference</i>
32 Gal.	\$ 34.35	\$ 36.02	\$ 36.58	\$ 0.56	1.53%
64 Gal.	\$ 49.22	\$ 51.61	\$ 60.32	\$ 8.71	14.44%
96 Gal.	\$ 64.51	\$ 67.65	\$ 87.31	\$ 19.66	22.52%
4.86% District subsidy level as of July 2018					

3. Having a cash reserve balance for Fund #300

Pros:

- a. District has funds to address unforeseen emergencies (i.e., earthquake debris removal)
- b. Funds available to temporarily support other enterprises (loan between funds)
- c. Fund support for Solid Waste capital projects (screens for WWTP to remove nonorganic material)

Cons:

- a. Time spent to develop solid waste specific projects to be funded from Fund 300
- b. Idle funds generate minimal interest income

August 6, 2018

ITEM 2

ATTACHMENT B

TO: FINANCE AND AUDIT COMMITTEE
FROM: MARIO IGLESIAS
GENERAL MANAGER
DATE: JULY 13, 2018

AGENDA ITEM

2

JULY 19, 2018

REVIEW SOLID WASTE FUND #300 CASH RESERVE POLICY AND EVALUATE USE OF FUNDS

ITEM

Review Solid Waste Fund #300 Cash Reserve Policy and evaluate use of funds
[RECOMMEND REVIEW POLICY, CONSIDER USE OF FUNDS AND DIRECT STAFF]

BACKGROUND

At your Board's July 11, 2018 Board Meeting, President Eby assigned the Finance and Audit Committee ("Committee") with the task of: (1) evaluating the Cash Reserve Policy for Solid Waste Fund #300, and (2) review appropriate uses for monies received in Fund #300. The Committee is then to provide recommendations to the Board for any changes to the policy and/or how the funds should be used.

The Cash Reserve Policy ("Policy") for Solid Waste Fund #300 ("Fund #300") is found in Nipomo Community Services District's Resolution No. 2017-1435 [attached]. The Policy includes "Targeted Criteria" cash reserve levels for the Operating Funds. The purpose of cash reserves is to ensure the District maintains a reserve of cash "at all times to have sufficient funding available to meet its operating, capital, and debt service obligations" as stated therein.

CASH RESERVE POLICY

The estimated cash balance as of July 1, 2018 for Fund #300 is \$244,000. The Cash Reserve Level for Fund #300 is set in the Policy at \$115,000. This level of reserves was established by the Board:

"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."

The annual cost for solid waste collection in the District's service area is approximately \$1.5 million. Should the District's business partner now franchised to do these functions be unable to continue providing these services, the District would need to find a vendor able to take on these functions temporarily. The time frame for "temporarily" has not been defined, but the current cash reserve level of \$115,000 would most likely cover the first three weeks of services.

Staff has reached out to different solid waste-collection service providers requesting an estimate for services on a temporary basis in the event necessary. As of the date of this staff report, no service provider has responded. Without an estimate by a service provider, staff can only estimate the cost of providing similar services from a different service provider would be

more expensive. This would be due to the nature of an agreement that includes startup costs such as route planning and customer billing records development. It may be prudent to consider adding 50% of the current cost of service with the current business partner to the estimate for temporary, emergency waste collection services.

When discussing cash reserve levels for Fund #300, the Committee may want to address the following questions:

- Are cash reserve levels appropriate
- Should language be modified to the existing policy
- Is there a need for additional factors – definitions, limitations on funds

FUND #300 PROGRAMS

The District currently receives approximately 5% of the 10% Franchise Fee identified in the original agreement – currently, about \$62,000/year. Over the years, the District used approximately 5% of the Franchise Fee to reduce customer rate increases imposed by the franchisee. Of the \$62,000 annually the District does retain, funding is directed towards programs that remove, reduce, or recycle solid waste in the community. In the past, these programs have included:

- Grant funding for monthly solid waste street patrols, collection and removal
- Creek Day – Annual event to remove solid waste from Nipomo Creek
- Highway litter removal Cal-Trans Program
- Nipomo Clean-up Day – a one-day large item removal program
- Old Town monthly trash receptacle pickup

Additionally, the District has provided solid waste rate holidays, where the District pays for a month of waste collection service for customers. This happens when Fund #300 has accumulated sufficient monies such that reserve levels are maintained above the Targeted Criteria after the expenditure of a rate holiday. This program is the single greatest expenditure, costing up to \$125,000 per rate holiday.

The second highest expenditure program, historically, is the Grant awarded to the Nipomo Chamber of Commerce for monthly monitoring and removal of solid waste on the streets of the community. Below is the history of the program including periods the program was in place, the award dates for the Grants, and those periods within each year's Grant.

Year of Grant	Amount	Awarded	Grant Period	No. of Months
2012	\$6,556	Oct. 10, 2012	Nov. 2012 – Oct. 2013	12
2013	\$4,010	Mar. 13, 2013	Mar. 2013 – Jun. 2013	4
2014	\$24,552	Mar. 26, 2014	May 2014 – Apr. 2015	12
2015	\$30,000	Feb. 11, 2015	Dec. 2014 – Nov. 2015	12
2016	\$35,000	Jan. 13, 2016	Dec. 2015 – Nov. 2016	12

The District cancelled this program in 2016 due to a lack of performance by the Chamber. There are no funds in the current budget dedicated to renewing the program with a different business partner.

District's General Counsel has provided a legal opinion limiting the use of funds collected by this enterprise. Monies collected through Fund #300 must be directed back to programs that specifically support reducing, removing, or recycling solid waste in the District. Any program your Honorable Board would consider supporting that relies on funding in part or in whole from Fund #300 must meet the intent of this premise.

When discussing the appropriate use of Fund #300 monies, the Committee may want to address the following questions:

- Build in Automatic Spending – Rate Holidays – when cash balances reach a threshold
- Schedule more services to community – large item collections, HazWaste extended hours, add waste receptacles
- Lower rates

FISCAL IMPACT

The District has an estimated cash balance of \$289,000 at the end of Fiscal Year 2018-19. The impact of maintaining this balance exceeds the current cash reserve level and may be unwarranted.

STRATEGIC GOAL

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

- B.1 Evaluate, plan for and maintain finances that are adequate for all needs, stable, and reliable over the long-term.

Goal 6. GOVERNANCE AND ADMINISTRATION. Conduct District activities in an efficient, equitable and cost-effective manner.

- A.1 Periodically review, update and reaffirm District policies and procedures.

RECOMMENDATION

Staff recommends the Finance and Audit Committee review and discuss the Cash Reserve Policy for Solid Waste Fund #300 and to consider appropriate uses of these funds, for the purpose of preparing a recommendation for the District's Board of Directors consideration.

August 6, 2018

ITEM 2

ATTACHMENT C

**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.