

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

Resolution No. 14-01

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
HERITAGE RANCH COMMUNITY SERVICES DISTRICT
ADOPTING A CASH RESERVE POLICY**

WHEREAS, the Board of Directors of the Heritage Ranch 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 definition of the Cash Reserves Policy means the portion of unrestricted net assets that are available for use in emergencies to sustain financial operations; and

WHEREAS, the District desires to formalize its Cash Reserve Policy; and

WHEREAS, the District desires to establish defined designated operating reserves; and

WHEREAS, the District desires to establish a buffer should revenue estimates in any year not meet projections; and

WHEREAS, the Cash Reserve Policy can also include policies on board-designated funds that further the mission of the District; and

WHEREAS, the Cash Reserve Policy has been prepared 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 this Policy; and

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Heritage Ranch Community Services District:

(1) The Cash Reserve Policy in the form presented at this meeting attached hereto as Exhibit "A" is hereby approved and adopted.

(2) The Officers of the District are hereby directed to do and cause to be done any and all acts necessary or proper in order to accomplish the purpose of this resolution.

(3) The Resolution shall be effective immediately.

APPROVED, ADOPTED AND SIGNED by the Board of Directors of the Heritage Ranch Community Services District on the 20th day of March, 2014 by the following roll call vote.

AYES: Directors Allison, Burgess, Barker, Foti, Breland

NOES:

ABSENT:

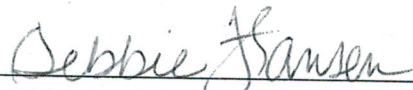
ABSTAIN:

APPROVED:



Bill Barker, President
Board of Directors

ATTEST:



Debbie Fransen, Secretary
Board of Directors

HERITAGE RANCH COMMUNITY SERVICES DISTRICT

CASH RESERVE POLICY

Resolution No. 14- 01 Attachment

EXHIBIT A

Background and Purpose:

One of the key attributes of a financially stable organization is appropriate reserves. Adequate reserves enable an organization to withstand significant economic downturns more effectively, manage the consequences of an outside agency's actions that may result in revenue reductions due to fines or other disciplinary action, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity or excessive liabilities, or any legal judgments against the District. In coordination with the District's other financial policies, the District's Cash Reserve Policy serves as an important tool to guide the use of District resources in meeting the District's financial commitments and provides an outline for addressing unexpected events in a fiscally practical manner.

The District shall establish and maintain a financial structure that provides for adequate and predictable revenues to meet the forecasted requirements or obligations and operational, administrative and policy objectives of the District's Funds. Each fund will be separate and management of the reserves will be independent of one another.

These reserves shall be categorized to include **Water and Sewer Operating Reserves, Water System Debt Reserves, Water and Sewer Capital Facility Replacement Reserves, Maintenance and Repair of Equipment Reserves, Emergency Solid Waste Reserves, Drought Contingency Reserve Fund and Renewable Energy Reserves** under the **Cash Reserve Policy**.

Based upon prudent financial management practices and required by legal, legislative and contractual (State Loan) obligations, the appropriate level and separation of cash reserves is critical to the financial health of the Heritage Ranch Community Services District. When reserve levels fall below acceptable levels, additional costs are incurred, such as loans or grants. This policy defines required fund types for segregation purposes for the required funding of the District's operations. The policy is designed to identify District operations and functions for which reserves should be established and maintained, including risks from unexpected events and expenses as well and are detailed as follows:

- **Water and Sewer System Operating Reserves** would predominately be funded from water and sewer user fees and be accumulated in the water and sewer funds. The purpose of operating reserves is intended to be used in the event of a catastrophe that prevents the District from operating in its normal course of business. This reserve is based on the annual operating budget (less the water purchase) Fee Schedules have been and will continue to be adopted by the Board of Directors every three years in order to mitigate year-to-year fluctuations in expenses and allow for level annual increases to water and sewer rates that are intended to pay for the actual costs of providing the services. To meet the District's cash flow needs and unbudgeted expenses, the Operating Reserves for Water and Sewer reserves will be funded with water and sewer fees, and the dollar amount shall be six months (180 days) of annual budgeted operating expenses. **Target criteria amount is \$700,000.**
- **Water System Debt Reserves** are required by the District's debt obligations, specifically the Department of Water Resources (DWR) Loan and the State Revolving Fund Agreement (SDWSRF). The reason for debt reserves is to provide sufficient funds to meet the annual debt service of these two loans. A set percentage of the Standby/Availability fees are accumulated annually to satisfy the debt for the Department of Water Resources. There is a mandatory Reserve Account specifically for the use of making the final payment on the DWR debt. The District has fully funded the Reserve Account as required by the loan agreement and those funds are restricted for the final year's payment of the DWR loan. Government Code Section §54984, et. al. provides the authority to impose this charge. This Code Section is specific to Standby Charges. The District elects to use a percentage of this revenue to fund debt. The same requirements pertain to the SDWSRF for a Reserve account. The Debt Reserves' target criteria is for 100% of funds for both the DWR Loan and the SDWSRF Agreement in the amount equal to two years of payments, and shall be funded with 82% of annual parcel based Standby/Availability Charges. **Target criteria amount is \$250,000.**
- **Water and Sewer Capital Facility Replacement Reserves** are accumulated in the water and sewer funds by the collection of Capacity Fees formally referred to as Connection Fees. Capacity fees shall be reserved and restricted for defraying the cost of upgrading District water and sewer facilities. New Development will share in the cost of improvements made to the water and sewer systems by payment of fees to be determined at the time the application for a Will Serve letter is received. The target criteria for the Water and Sewer Capital Facility Reserves shall be the amount equal to the District's Accumulated Depreciation for the Water, Sewer and General Fund. This amount is calculated annually in the audit. A replacement study will be done to better define the cost of replacement of current major assets. (i.e.: Water Treatment Plant) **Target criteria amount is \$7,000,000.**

- **Water and Sewer Facility Maintenance/Repair Reserves** are accumulated in the water and sewer funds by a percentage of Standby/Availability Charges collected annually. Government Code Section §54984, et al. provides the authority to impose this charge. This Code section is specific to Standby Charges and the District elects to use an allocation of the Standby/Availability Charge to be used for the maintenance, and repair of water and sewer facilities. The target criteria shall be the amount equal to the annual budgeted depreciation amount. **Target criteria amount is \$288,000.**
- **Emergency Solid Waste Reserve Funds** are accumulated from the monthly Franchise Fees collected by San Miguel Garbage Company (SMGC) per the Franchise Agreement with SMGC. The District receives 6% of the total fees collected monthly for curbside pick-up of solid waste and roll off bin fees. These fees would be designated for emergency use for the removal of solid waste and/or hazardous materials from a natural or man-made disaster. **Target criteria for this reserve fund is \$100,000** and shall be funded by franchise fees.
- **Rate Stabilization Reserve Fund** will serve as a buffer and keep a stable balance in this Reserve in order to maintain the water rates during any period when there are unexpected increases in operating costs or decreases in revenues. In a severe drought or extremely wet conditions, it is reasonable to expect water sales to fluctuate significantly. In the event of extreme drought conditions, the water fee surcharge of 200% per unit could result in very low water sales. The purpose of this fund will absorb these types of fluctuations in operations and aid in the stabilization of rates. This fund shall not be used to artificially suppress rates. **Target criteria for this reserve fund is \$200,000** and shall be funded by water user fees.
- **Drought Contingency Reserve Fund** will be established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the District's water supply. The amount of this reserve may be funded with a percentage of the annual Property Tax revenues received from the parcels within the boundaries of Heritage Ranch. **Target criteria for this reserve fund is \$250,000.**
- **Renewable Energy Fund Reserves** will be restricted for the capital costs related to projects that support or create renewable energy. Renewable energy projects can conserve energy (conservation) or create energy, (solar, etc.). **Target criteria for this reserve fund is \$250K.**

Conclusion:

The Cash Reserve Policy should be maintained, regularly updated and adhered to as a good business practice recognized by the Government Finance Officers' Association. The Board of Directors recognizes that the Cash Reserve Policy is the basis of the District fiscal health. A periodical review of the Cash Reserve Policy should be performed and any changes to the Cash Reserve Policy will be brought forward for the Board's consideration and approval.