
California Pines CSD

POLICY HANDBOOK

POLICY TITLE: Reserve Policy
POLICY NUMBER: 2150

2151.1 Purpose

The purpose of this policy is to ensure that the California Pines CSD:

- Maintains appropriate accounting mechanisms to track Debt-, Operating-, Emergency- and Capital Reserves.
- The “Reserves” are used for their intended purposes,
- Has procedures to transfer funds to/from the “Reserve” accounts.

This Policy does not calculate the appropriate level of any of the reserves, but specifies how to handle the accounting of those reserves.

2150.2 AWWA Reserves

In *M1 Principles of Water Rates, ed5*, page 13, AWWA identifies four reserve types: Debt-, Operating-, Emergency-, and Capital Reserves. Additional reserves may be required by funders. In the case an additional reserve is required this policy will be revised.

Each enterprise will have its own four reserve accounts in the accounting system.

2150.3 Debt Reserve

Often, Debt issuance requires the creating of a separately held reserve fund e, to be held by the trustee, and unrestricted at the time of final payment. California Pines CSD shall stay in compliance and set an amount aside as per the agreement with the lender.

2150.4 Operating Reserve

The Operating Reserve provides an internal source of funds for situations such as a sudden increase in expenses, one-time unbudgeted expense, unanticipated loss in funding, or uninsured losses. Operating Reserves are not intended to replace a permanent loss of funds or eliminate an ongoing budget gap. It is the intention of California Pines Community Services District for Operating Reserves to be used and replenished within a reasonably period of time.

The Operating Reserves is defined as the designated fund to set aside by action of the Board of Directors. They minimum amount to be designated as Operating Reserves will be established in an amount sufficient to maintain ongoing operations and maintenance.

An amount set aside in the operating account to provide working capital. An amount equal to the total expenses over a period of one and a half billing cycle is usually considered an appropriate level. These funds must remain liquid and are usually deposited in a checking account.

1250.5 Emergency Reserve

Emergency reserves help provide continued service to the District's customers and service areas for the events which are impossible to anticipate or budget. The ability of the District to quickly restore facilities and services is critical to the public health and safety of residents. The Emergency Reserve shall be designated as a restricted reserve fund, it shall be expended solely for the purpose of responding to and maintaining the District operations during a natural disaster and/or emergency. This fund will assist in covering emergency cash needs for any reason. AWWA recommends an emergency reserve amount equal to the cost of the most expensive critical equipment that may fail. These funds must remain liquid. California Pines CSD shall target a balance of (XXX amount or % of its prior year-end total assets) in this reserve for both all enterprises.

An amount set aside for emergencies—not routine maintenance, refurbishing or capital replacement. These funds must be accessible within a few working days and are usually deposited in a savings account. AWWA recommends an emergency reserve amount equal to the cost of the most expensive critical equipment that may fail. These funds must remain liquid and are usually deposited in a savings account.

1250.7 Capital Reserve

California Pines CSD is to set an amount aside for the future replacement of worn-out equipment. The amount of required capital reserves is determined by the Capital Asset Replacement program. These funds can be invested with longer-term, risk free maturities, who coincide with the cash requirements of the Capital Asset Replacement Program. The Capital Reserve will be established to support the future capital needs of California Pines CSD water and wastewater. This may include replacements costs for of existing facilities or equipment as it reached the end of its useful life and funding major repairs that extend useful life of facilities/equipment.

1250.1.1 Transfers to Reserves

The district shall keep distinct accounting accounts for each of the reserve types outlined above. However, the time horizon for Debt Reserve is very long (i.e. a long-term CD).

For Emergency Reserve the time horizon is very short (i.e. a savings account). The time horizon for Capital Reserve depends on the projects coming up (i.e. a ladder of CDs).

On the accounting books, the district shall have accounts, identifying all reserve accounts. Each quarter the accounting staff shall determine the excess cash generated by each enterprise (i.e. water, sewer, solid waste, electricity, etc.). This amount shall be determined by subtracting all items paid from the revenue collected, included any transfers from the reserve accounts, as described in the section below.

1250.1.2 Reserve Targets

The targets for each of the reserve accounts will be as determined by the most recent rate study.

1250.1.3 Allocation Schedule

This excess cash shall be deposited in the reserve account, in the following order:

- 1. Any shortfall in the Operating Reserve account**
- 2. Any shortage in the Debt Reserve account**
- 3. Any shortage in the Emergency account**
- 4. The remaining will be deposited in the Capital Reserve account for that CSD**

The District's staff shall report all transactions and the balance in the reserve accounts to the Board on a quarterly basis.

1250.2 Transfers from Reserves

Funds in the reserve accounts will not be used for any other purpose than they were intended as set forth above unless approved by the Board. No funds will be transferred between enterprises.

1250.2.1 Debt Reserve

Can only be transferred when the associated debt is paid off or the lender authorizes a reduction in Debt Reserve. At that time the Debt Reserve is returned to the operating account and redistributed according to the allocation schedule above.

1250.2.2 Emergency Reserve

Funds in the Emergency Reserve can only be transferred for emergency purposes. Emergencies are limited to disasters, drought, fire or any other unforeseeable event. The funds are not to be used for operating capital, debt payments, capital improvements or replacements, maintenance or any other foreseeable event.

1250.2.3 Capital Reserve

Funds in the Capital Reserve account can only be transferred for capital replacement projects for that enterprise. The funds are not to be used for operations, refurbishing, debt payment, or emergencies.

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