

**SAN SIMEON COMMUNITY SERVICES DISTRICT  
AGENDA  
BUDGET COMMITTEE MEETING  
March 21, 2022  
10:00 AM**

Physical Meeting Location:  
**250 Hearst Drive  
San Simeon, CA 93452  
Cavalier Business Center  
BUTTE ROOM - Upstairs Meeting Room**

**1. REGULAR SESSION**

**A. Roll Call**

**2. PUBLIC COMMENT FOR ITEMS NOT ON THE AGENDA:**

**Public Comment** - Any member of the public may address the Committee relating to any matter within the Committee's jurisdiction, provided the matter is not on the Committee's agenda. Presentations are limited to three (3) minutes or less with additional time at the discretion of the Committee Chair. Your comments should be directed to the Committee as a whole and not directed to individual Board members. The Brown Act restricts the Board from taking formal action on matters not published on the agenda.

**3. BUSINESS ITEMS:**

**Public Comment** - Members of the public wishing to speak on business items may do so when recognized by the Committee Chair. Presentations are limited to three (3) minutes or less with additional time at the discretion of the Committee Chair.

**A. Approval of July 8, 2021 Meeting Minutes.**

**B. Appointment of a Chairperson for the budget committee.**

**C. Discussion regarding the Draft FY Year 2022 - 2023 SSCSD Annual Budget.**

**D. Discussion regarding scheduling meeting dates for future committee meetings.**

**E. Discussion regarding special district reserve guidelines.**

**F. Consideration of approval of a draft capitalization policy.**

**4. ADJOURNMENT**

All staff reports or other written documentation, including any supplemental material distributed to a majority of the Board within 72 hours of a regular meeting, relating to each item of business on the agenda are available for public inspection during regular business hours in the District office, 111 Pico Avenue, San Simeon. If requested, this agenda shall be made available in appropriate alternative formats to persons with a disability, as required by the Americans with Disabilities Act.

To make a request for a disability-related modification or accommodation, contact the District Administrator at 805-927-4778 as soon as possible and at least 48 hours prior to the meeting date. This agenda was prepared and posted pursuant to Government Code Section 54954.2.

## Staff Reports

### **A. Approval of July 8, 2021 Meeting Minutes.**

July 8, 2021 meeting minutes are included for approval by the committee.

### **B. Appointment of a Chairperson for the budget committee.**

The committee members need to select a committee Chairperson.

### **C. Discussion regarding the Draft Fiscal Year 2022 - 2023 SSCSD Annual Budget.**

Discussion regarding the Fiscal Year 22-23 Annual Budget.

### **D. Discussion regarding scheduling meeting dates for future committee meetings.**

GES Staff is asking that the next committee meeting be scheduled for April 25, 2022 at 10 am. This meeting will be held via in-person and Mary Fleming (contractor from RCAC) who is working on the water portion of the rate study will be calling in with information for the committee. Her availability is very limited.

Additionally, a final version of the Budget needs to be presented to the Board at the June 14, 2022 meeting. Working backwards, the committee needs to present a DRAFT version of the budget to the Board at the May 10, 2022 meeting. Please keep these dates in mind as the committee moves forward in the budget creation process.

### **E. Discussion regarding special district reserve guidelines.**

Two version of a draft policy are attached. One version was provided by RDN, the contractor who is working on the sewer portion of the rate study. A second draft version of a reserve policy for the District prepared by GES Staff is also attached. GES Staff is asking that the committee review the draft policy and provide feedback. Any edits or suggestions will be incorporated into the draft document and discussed during the next budget committee meeting. A final version will be presented to the Board for formal adoption of the policy at a future Board meeting.

### **F. Consideration of approval of a draft capitalization policy.**

A draft version of a capitalization policy for the District is attached. GES Staff is asking that the committee review the draft policy and provide feedback. Any edits or suggestions will be incorporated into the draft document and a final version will be presented to the Board for formal adoption of the policy during the April Board meeting.

**SAN SIMEON COMMUNITY SERVICES DISTRICT  
BUDGET COMMITTEE MEETING MINUTES**

**Thursday July 8, 2021  
10:00 AM**

Physical Meeting Location:  
**250 Hearst Drive  
San Simeon, CA 93452  
Cavalier Business Center  
BUTTE ROOM - Upstairs Meeting Room**

**1. REGULAR SESSION @ 10:03 am**

- A.** Bill Maurer – Present  
Mike Hanchett – Present  
Luz Hernandez – Present  
Miguel Sandoval - Present

**2. PUBLIC COMMENT FOR ITEMS NOT ON THE AGENDA:**

**Public Comment –**

Julie Tacker commented on the meeting handouts not being made available on the website.

**3. BUSINESS ITEMS:**

**Public Comment –**

Julie Tacker commented on the use of the word alleged in the June 17, 2021 meeting minutes. She provided the committee with a copy of a handout from District Counsel.

**A. Approval of June 17, 2021 Meeting Minutes.**

There was a motion to approve the meeting minutes.

Motion: Mike Hanchett  
2<sup>nd</sup>: Luz Hernandez  
Abstain: Miguel Sandoval  
All in: 3/1

**B. Discussion regarding the Draft FY Year 2021 - 2022 SSCSD Annual Budget.**

A review of the budget was presented by Mike Hanchett. A recommendation was made to present a Draft version of the budget to the Board.

Motion: Mike Hanchett  
2<sup>nd</sup>: Miguel Sandoval  
All in: 4/0

**C. Discussion regarding scheduling meeting dates for the month of July.**

A consensus was reached to schedule the next meeting on July 8, 2022.

**4. ADJOURNMENT @ 11am**

## Item 3E

### Discussion regarding draft reserve guideline policy

Item 3E is put forth for the budget committee to review the District's current informal practice of how equity is reserved for specific uses. The Operating Reserves and the Capital Improvement Reserves policy simply describe how the District has been allocating funds out of "Undesignated" equity, and categorizes those funds as "assigned" or "committed" for a specific later use.

If the budget committee approves of the current practice, the next step would be to recommend the board formally adopt these policies and enter them into the Policy and Procedure manual. As with all policies, this policy may be reviewed annually and amended in the future as conditions change over time.

#### Operating Reserves

Current Practice: The District has committed \$250,000 of equity of Operating Reserves. This commitment has been documented in the monthly Board Packet in the District Financial Summary for over ten years. The \$250,000 in Operating Reserves has also been formally reported out on each of the outside audit reports since 6/30/2019.

Purpose: The purpose of an operating reserve is to mitigate the effects of rate volatility. This is commonly known as a rainy day fund.

#### Capital Improvement Reserves

Goal of this discussion item: To determine the amount the District should maintain in a capital reserve fund. .i.e, would a capital reserve amount of 25% of the original asset cost be a realistic goal?

The cost of infrastructure as shown on the 6/30/2021 Fixed Asset/Depreciation schedule shows a book value of \$3,750,000. If the goal were set at 25% of infrastructure costs, this would result in a target amount of Capital Reserves in the amount of \$937,500.

The board first authorized the Capital Reserve Fund in Fiscal Year 18/19. The reserves for CIP increases annually in an amount equal to the annual budgeted depreciation. Over the 3 fiscal years (18/19, 19/20 and 20/21), the cumulative total accumulated for future CIP so far is \$354,305.

#### Definitions

For a bit more detailed definition of the words "committed", "assigned" or "undesignated", please refer to the CSDA publication entitled: "Special District Reserve Guidelines" Second Edition. Below is a simple way to interpret the terms described in the publication:

**Committed:** This is a label that the Board imposes upon itself, in order to limit access to equity – so the equity may be used to continue operations in the event of an unforeseeable shift in the economy.

**Assigned:** This is a fund that shows the Board is earmarking funds for the use of future capital improvement projects. It is less restrictive than "committed" funds and more restrictive than "undesignated" funds.

**Undesignated:** This fund comprises all the equity remaining on the books that is not limited by other more restrictive categories. It is the least restrictive of the types of equity funds named in the equity section of the "Statement of Net Position" (aka the Balance Sheet).

## Components of Fund Balance

In governmental funds, “reserves” typically comprise a portion of the total fund balance. Fund balance reporting standards play a part in describing how much of fund balance might be available for a reserve and how much is limited to other purposes. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, changes how fund balance has traditionally been reported.

In the past, reporting of fund balance focused on whether resources were available for appropriation (i.e., budgeting) and distinguished between “unreserved fund balance” (i.e., available for appropriation) and “reserved fund balance” (i.e., not available for appropriation). GASB Statement No. 54 changes the focus to the “extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent” and establishes five different components of fund balance:

### COMPONENTS OF FUND BALANCE

NONSPENDABLE FUND BALANCE	RESTRICTED FUND BALANCE	COMMITTED FUND BALANCE	ASSIGNED OR DESIGNATED FUND BALANCE	UNASSIGNED OR UNDESIGNATED FUND BALANCE
This category is inherently nonspendable, such as the long-term portion of loans receivable, the principle of an endowment and inventories.	This classification has externally enforceable limitations on the use of fund balance, imposed by parties such as creditors, grantors or laws or regulations of other governments.	This encompasses limitations imposed by the special district upon itself at its highest level of decision making (e.g., governing board through a resolution). For example, the governing board might commit a portion of fund balance to a “stabilization fund” to provide a cushion against unknown economic shocks and revenue declines.	This portion is earmarked for an intended use. The intent is established at either the highest level of decision making or by a body or official designated for that purpose. For example, a share of fund balance might be assigned to offset a gap in the budget stemming from a decline in revenues or an allotment could be assigned for an upcoming special project.	This comprises all fund balances that are left after considering the other four categories. Use is least constrained in this category of fund balance.



## Document prepared by RDN:

### Sewer Reserves and Policy Recommendations<sup>1</sup>:

The level of reserves maintained by a utility is an important component of short and long-term financial management, and is a key consideration in the rate-setting process. While many utilities view higher levels of reserves as prudent and conservative planning that result in many benefits, some utilities philosophically view reserves as tying up current customer dollars that could be used for expenditures or other benefits. Regardless of the philosophical perspective on reserves, all utilities should establish formal or informal financial policies relative to reserves. Such policies should articulate how these balances are established, their use, and how the adequacy of each respective reserve fund balance is determined.

#### San Simeon CSD

##### *Current:*

Capital Reserve (\$155,785) – No Policy

See Balance Sheet 2021-10-31.pdf Line 3205 Equity, “board assigned for WW CIP”

##### *Proposed:*

#### **Operating Reserve – 3 months of operating costs**

**Recommended: District should accumulate \$136,840 by FY 2026-27**

##### Justification:

- The goal is to mitigate the effects of rate volatility. The most common metric used when evaluating operating reserve levels is a specified number of days or months of operating expenses (although there are sometimes other metrics that are used, such as a specific dollar value). When considering operating reserves as a number of days or months of operating expenses, it is important to consider the specific expenses to be included.
- Rate structure – the proportion of revenue generated in fixed versus variable rate components will impact the potential volatility of utility system revenue, since the District’s current rate structure is based completely on variable charges, the Operating Reserve is necessary to mitigate impacts from decreases in flow.
- Usage variability – changes in usage resulting from weather, conservation, economic factors, or larger customers vary by system and will impact the amount of operating reserves that should be maintained.

#### **Capital (Rehabilitation and Replacement) Reserve – 20% of asset original cost**

**Recommended: District should maintain \$411,323 at all times in case of emergency, this amount can be built through the study period**

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<sup>1</sup> Based on the guidelines outlined in the California Special Districts Association Special District Reserve Guidelines Second Edition, 2013 and the American Water Works Association Cash Reserve Policy Guidelines, 2018

Justification:

- The goal is to have funds in reserve to cover unplanned rehabilitation and replacement because of assets that wear out before the expected useful life. This amount could be established based on a percentage of total asset value, one year's depreciation expense, or the average annual rehabilitation and replacement budget.

DRAFT

# San Simeon CSD Reserve Policy Recommendations<sup>1</sup>

The level of reserves maintained by a utility is an important component of short and long-term financial management.

## *Importance of Maintaining a Reserve*

Reserves are the foundation of the sustainable delivery of core services.

Through prudent reserves, special districts offer taxpayers and ratepayers significant benefits including:

1. Savings to balance budgets
2. Emergency preparedness
3. Stable rates
4. Well-maintained infrastructure
5. Investment in the future

## **Operating Reserve**

**Goal:** The goal is to maintain an operating reserve amount equal to 25% of the total operating budget.

**Current Practice:** The District has committed \$250,000 of equity of Operating Reserves.

### **Justification:**

- The goal is to mitigate the effects of rate volatility.
- Rate structure – the proportion of revenue generated in fixed versus variable rate components will impact the potential volatility of utility system revenue, since the District’s current rate structure is based completely on variable charges, the Operating Reserve is necessary to mitigate impacts from decreases in flow.
- Usage variability – changes in usage resulting from weather, conservation, economic factors, or larger customers vary by system and will impact the amount of operating reserves that should be maintained.
- When the operating budget changes significantly (from the historical base amount of \$1,000,000), the Board may decide to re-evaluate the reserve policy and determine if the flat rate of \$250,000 of committed equity is a sufficient amount of Operating Reserves to achieve the District’s goals.

## **Capital Reserves –**

**Goal:** District should maintain a capital reserve amount equal to 25% of the original asset cost.

**Current practice:** As of 6/30/21 the Board has assigned \$354,305 of the District’s equity to be used for future capital improvement projects (CIP). This amount increases annually by the amount of budgeted depreciation.

### **Justification:**

- The goal is to have funds in reserve to cover rehabilitation and replacement of assets that wear out over time.
- The intention is to continue to build equity in the assigned/reserved funds for CIP by the amount of budgeted depreciation expense once a year as part of the audit process until the target goal of \$937,500 (or 25% of the cost of infrastructure) is achieved.
- Any transfer from undesignated to designated equity shall occur only if there is income in at the end of each fiscal year in a sufficient amount to justify the transfer.



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<sup>1</sup> Based on the guidelines outlined in the California Special Districts Association Special District Reserve Guidelines Second Edition, 2013 and the American Water Works Association Cash Reserve Policy Guidelines, 2018

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## **Item 3F**

### **Discussion regarding capitalization policy**

The draft policy provided under Item 3F is put forth for the budget committee's consideration to enter the existing practice into the Policy and Procedure manual.

The policy describes the limit at which point expenditures are considered an expense versus an asset. The auditor asks to see this policy in writing each year, as part of the audit process.

#### **Operating Expense/Costs**

If the District purchases items or services that cost less than \$5,000 and are generally consumable in 1 year or less, those items are categorized as a current year operating expense and fall under the current year's statement of revenues and expenses (commonly known as a profit & loss statement). Example: office supplies, insurance premiums, website maintenance, etc.

#### **Potential Asset Costs**

If the District purchases items or services that cost more than \$5,000 and are generally consumable over multiple years, those items may generally be categorized as an asset and would not fall under the current year's statement of revenues and expenses. Example: major repairs to infrastructure that lengthen the useful life of the asset (such as repairs to the Waste Water Treatment Plant) – this type of expenditure gets coded to an expense account entitled "Capital Projects/Improvements". At the end of the year, as part of the audit process, items held in that account are analyzed to determine if they should be expensed in the current year as an operating expense or capitalized (i.e. coded to an asset account).

#### **Construction in Progress**

When the District purchases items or services that are part of a known construction project – for example – the Water Tank Project that is in the design phase now, expenditures related to that project are coded to the asset account (and are not categorized as an operating expense in the current year's activities). Example: engineering services, environmental consulting services, etc.

Item 3F.

Draft Capitalization Policy:

It is the intention of the Board to capitalize expenditures in excess of \$5,000.00. Expenditures over \$5,000.00 that are associated with a current capital improvement project (CIP) shall be coded directly to that asset. Expenditures over \$5,000.00 that are not associated with a current CIP shall be coded to the expense account 9030–Capital Projects/Improvements. This account shall be evaluated on an annual basis as part of the audit process to determine if the expenditures qualify as capital expenditures or expenses.

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