

AGENDA ITEM: _____ DATE: _____ ACTION: _____

**San Simeon Community
Services District
Financial Policy**

Cash Reserve Fund Balances

The Board of Directors wishes to use this tool to ensure the adequacy of the short and long-term cash resources of the District to meet and minimize the adverse impact of unanticipated expenses and shortfalls in District revenues. This will result in the ability to stabilize the District's rates structures, while providing the financial resources to meet the commitments necessary during unexpected events.

With proper use, the district's liquid resources can be allocated to sustain the District and comply with GASB 54 requirements.

Fund Types

- **Nonspendable Fund Balance** – represents an amount that cannot be spent because it is either not in spendable form or legally required to remain intact.
- **Restricted Fund Balance** – represents amounts that are constrained by external parties, constitutional provisions or enabling legislations.
- **Committed Fund Balance** - represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action.
- **Assigned Fund Balance** – represents amounts which the district intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority.
- **Unassigned Fund Balance** – represents amounts which are unconstrained in that they may be spent for any purpose.

Due to the limited number of customers and resources, the Board of Directors has directed the use of the least restrictive appropriate fund classification to best meet the unanticipated needs of the District. When an expenditure is eligible for both a restricted and unrestricted reserve balance, the expenditure is to be charged to the most restrictive reserve first.

The District shall establish and maintain a financial structure that provides for adequate and predictable revenues to meet the forecasted requirement 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.

Based upon prudent financial management practices and required by legal, legislative and

contractual obligations, the appropriate level and separation of cash reserves is critical to the financial health of the San Simeon Community Services District. 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 risk from unexpected events and expenses, and are detailed as follow:

Operating Reserves:

Assigned Wastewater Operating Reserves

Target Criteria Amount: Three (3) months operating costs \$150,000.

Timeline: By FYE 2021-22

Justification:

- The goal is to mitigate the effects of rate volatility & unexpected events. The majority of the District's revenue is provided by seasonal tourist oriented business that are subject to disruptions by: natural disasters, weather, road closures, pandemics, etc.
- The rate structure is variable in nature to coincide with the business cycle to improve the collectability, etc. It also is a very objective way of measuring actual usage as it is based upon water meter reading.
- Funding will be provided by user fees that are scheduled to increase yearly with the use of the Average Annual Consumer Price Index.

Assigned Water Operating Reserves

Target Criteria Amount: Three (3) months operating costs \$150,000.

Timeline: By FYE 2021-22

Justification:

- The goal is to mitigate the effects of rate volatility & unexpected events. The majority of the District's revenue is provided by seasonal tourist-oriented business that are subject to disruptions by: natural disasters, weather, road closures, pandemics, etc.
- The rate structure is variable in nature to coincide with the business cycle to improve the collectability, etc. It also is a very objective way of measuring actual usage as it is based upon water meter reading.
- Funding will be provided by user fees that are scheduled to increase yearly with the use of the Average Annual Consumer Price Index.

Assigned General Fund Operating Reserves

Target Criteria Amount: Four (4) months operating costs \$40,000.

Timeline: By FY 2021-22

Justification:

- The goal is to ensure adequate cash resources to provide for the General fund's operations including streets, street lighting, weed abatement, and garbage due to any disruption of the cash flow or unforeseen major expenses or events.
- Funding is provided by taxes, a fixed account service fee and anticipated garbage franchise fees.

Capital Rehabilitation & Replacement Reserves

Assigned Wastewater R &R Reserve

Target Criteria Amount: When Fund balance equals 100% of Accumulated Depreciation (Current balance \$155,785.)

Timeline: Ongoing

Justification:

- The goal is to aid in providing capital funding for the rehabilitation and replacement of the existing wastewater treatment facility and upgrades to the collection system to the greatest extent possible.
- The current wastewater treatment facility is believed to have adequate capacity for buildout, but because of a directive by the California Coastal Commission relating to climate change and rising sea levels it is approaching the end of its expected life cycle, the facility must be moved within ten-fifteen years.
- Limited liquid reserves will be provided by future capacity fees, as set forth in the current capacity fee study, (Previously connection fees) due to the remaining life of the existing facility. This coupled with limited demand after the current waitlist is satisfied. (Estimated 85% of buildout will be completed) will require creative and aggressive solutions.
- Funding will be provided annually by contributing into the Wastewater R &R Reserve an amount equal to 100% of the wastewater fund's previous years audited depreciation. In addition, earned capacity fees will also be contributed to this reserve.

Assigned Water R &R Reserves

Target Criteria Amount: When Fund balance equals 100% of Accumulated Depreciation (Current balance \$155,505.)

Timeline: Ongoing

Justification:

- The goal is to aid in providing capital funding for the rehabilitation and replacement of the existing freshwater storage facility and upgrades to the distribution system to better provide adequate fire protection and safety to the greatest extent possible.
- The water system is composed of three components: production, storage, and distribution. Our systems production facilities are at the beginning of their life cycle with the well field facilities having been rehabilitated in the last 10 years and a new RO

facility in the last 5 years. The storage facility is an unground gravity fed storage that is approaching the end of its life cycle. The distribution system is a mixed bag with critical choke points that limit fire flow and need attention.

- With the new upgraded production facilities, the capacity fee study shows a substantial contribution from the waitlist that should provide adequate liquid resources to help move the current storage project forward.
- Funding will be provided annually by contributing into the Water R & R Reserve an amount equal to 100% of the water fund's previous year's audited depreciation. In addition, earned capacity fees will also be contributed to this reserve.

Assigned General Fund R & R Reserves

Target Criteria Amount: When Fund balance equals 100% of Accumulated Depreciation (Current Balance \$43,295.)

Timeline: Ongoing

Justification:

- The goal is to provide capital funding for the rehabilitation and replacement of the street improvements and other capital assets of the General Fund.
- Funding will be provided annually by contributing into the General Fund R & R Reserve an amount equal to 100% of the General Fund's previous year's audited depreciation.

Debt Service Reserves

Restricted Wellhead Project Debt Reserves: USDA Rural Utilities Services Loan Dated Sept. 23, 2013

Target Criteria Amount: \$20,690. (minimum – Board may wish two years over a longer time)

Timeline: by FY 2022-23 and throughout the term of the loan

Justification:

- This is a covenant of the Wellhead USDA Loan Agreement and is to be maintained during the life of the loan as per the covenant.

Restricted Wellhead Project Short-Lived Assets Reserves: USDA Rural Utilities Services Loan Dated Sept. 23, 2013

Target Criteria Amount: \$5,000.

Timeline: by FY 2022-23 and throughout the term of the loan

- Amount is set aside for short-lived asset replacement as per covenant.

Conclusion:

The Cash Reserve Policy should be maintained, regularly updated, and adhered to as a good business practice. The District' Master Plans should be reevaluated every 5-7 years or as items are identified that might impact the reserve policy's ability to fund the future projects.

The adoptive board realizes that this is a small District and liquid resources are limited. Further they understand that their responsibility is to administer and oversee a holistic system to provide services and safety for all.

Therefore, they wish to provide for procedures to allow one fund's reserve to borrow from another as unexpected events occur. To provide for this process they are adopting Exhibit A to this policy to establish a simple and fair way to reimburse funds for the loans that might be approved in the future. They are based upon the amount of the loan and the time expected for its repayment and are offer here as a guidance for Board actions. These fees may be modified or overridden from time to time as the Board deems appropriate and circumstance justify.

EXHIBIT "A"
LOAN FEE GUIDANCE

AGENDA ITEM: _____

DATE: _____

ACTION: _____

<u>Loan Term</u>	<u>Amount of Loan</u>	<u>Fees Due at End</u>
One Year or less	Less than or equal to \$50,000.	\$5.00 per \$1,000.
One to Three Years	Less than or equal to \$150,000.	\$5.00 per year*- per \$1,000. *Rounded to nearest ½ year
Three Years or more	\$150,000. Or more	Simple Interest using LAIF's average rate for the term Rounded to nearest month