

**AVILA BEACH COMMUNITY SERVICES DISTRICT
RESOLUTION No. 2017-09**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE AVILA BEACH
COMMUNITY SERVICES DISTRICT REGARDING WATER AND WASTEWATER
ENTERPRISE FUNDS INCLUDING: OPERATING RESERVE, CAPITAL RESERVE,
CAPACITY RESERVE, EMERGENCY CAPITAL RESERVE, AND RATE
STABILIZATION RESERVE**

WHEREAS, it appropriate and necessary for the Avila Beach Community Services District (the "District") to set goals for its reserve balances for long range financial and strategic planning; and,

WHEREAS, the District has reviewed its reserve requirements and determined that it is necessary to establish certain reserve funds and cash balances;

NOW, THEREFORE, BE IT RESOLVED, DETERMINED, AND ORDERED by the Board of Directors, Avila Beach Community Services District, San Luis Obispo County, California, as the following findings and establish the reserve funds for each of water and sewer enterprises as listed below.


- Operating Reserve Fund
- Capital Replacement Reserve Fund
- Capacity Reserve Fund
- Emergency Capital Reserve Fund
- Rate Stabilization Reserve Fund

Each of these reserves are defined in Exhibit A Reserve Policy attached to this Resolution. The Board of Directors shall review the Reserve Policy and the level of reserves in each fund on an annual basis.

ON MOTION of Director Najarian seconded by Director DeWeese, and on the following roll call vote to wit:

AYES: 4
NOES: 0
ABSENT: 1

The foregoing resolution is hereby adopted this 12th day of September, 2017.



Lynn Helenius, Vice President

ATTEST:



Secretary to the Board of Directors

AVILA BEACH COMMUNITY SERVICES DISTRICT

RESOLUTION No. 2017-09

RESERVES POLICY

EXHIBIT A

Purpose

The purpose of the Avila Beach Community Services District's Reserve Policy ("Reserve Policy") is to ensure that the District has sufficient funding available at all times to meet its operating, capital, and debt service obligations. Reserves should be managed in a manner to fund costs consistent with its annual capital improvement program, forward-looking financial plan, and other long-term plans while avoiding significant rate fluctuations due to changes in cash flow requirements.

Policy

The Board of Directors ("Board") of the Avila Beach Community Services District ("District") may establish reserve funds and reserve minimum balances as it determines to be in the best interest of the District. The reserve balances are intended to ensure that the District has sufficient reserves to meet current and future needs. Such balances shall be reviewed by the Board and District staff on an annual basis as part of the budget process.

With this Policy, the District establishes and segregates several reserve funds to protect the investment in various assets and to meet its financial, regulatory, and contractual obligations. The proper management of these reserves will provide additional assurance that the current levels of service quality and reliability will be met now and into the future.

This Reserve Policy establishes the reserve funds and the level of reserves necessary for adequately providing for the following.

- Funding infrastructure replacement
- Cash flow requirements
- Loss of revenue due to loss of the largest customer, reduced capacity charges, drought conditions, heavy rainfall, or other condition
- Economic uncertainty
- Local disasters or catastrophic events
- Unfunded mandates and regulatory changes and requirements

Reserve Funds

The District's reserve funds may be generally classified as operating, capital, and restricted funds. A "fund" is a segregation within the District's accounting system to keep sources and uses of funds easily identifiable and reportable. The funds established with this Reserve Policy are for water and wastewater service separately.

The cash reserve balances are to be maintained in separate funds within the accounting system in a manner that ensures accurate tracking of transactions and transparency to the District's ratepayers. The District will follow standardized methods of financial reporting such as Governmental Accounting Standards Board (GASB) No. 34 and/or No. 54.

The target reserve levels are considered to be the minimum levels for each fund. The minimum reserve balances are intended to support a sustainable financial condition, recognizing the risk and long-range financial planning perspective that is acceptable to the District. It is intended that interest income generated from any specific restricted reserve fund remain in such fund until any regulatory or contractual maximum is achieved. Once such maximum is achieved, interest income will be allocated to the Operating Fund until it's maximum is reached as stated in this Reserve Policy. Reserves over the maximum are transferred to the associated Capital Replacement Fund.

The following funds and reserve targets are established with this Reserve Policy.

Operating Fund Reserve

Purpose: The purpose of the Operating Fund Reserve is to provide working capital to meet cash flow needs during normal operations and to support the operation, maintenance and administration of the utility. The reserve is intended to reduce impacts from unforeseen events such as increased purchased water cost, loss of the District's largest customer, severe drought, heavy rainfall, replacement of rolling stock, litigation, and legislative actions. This reserve ensures that operations can continue should there be significant events that impact cash flows.

Target Reserve: The Target Reserve for this fund is established as a range between a minimum of 90 days (3 months) of annual operation and maintenance ("O&M") expense and a maximum of 270 days (9 months) of O&M. Reserves over 270 days will be transferred to the Capital Replacement Fund Reserve at the end of a fiscal year.

Capital Replacement Fund Reserve

Purpose: The Capital Replacement Fund Reserve is used to fund future replacement of system capital assets and capital projects and to provide a cushion for inaccuracy in the long-range capital replacement program. The reserve provides for timely repair and replacement of system capital facilities.

Target Reserve: The Target Reserve for the water system is 2 times the average annual 5-year Capital Improvement Program expenditures. For the wastewater system, the Target Reserve is equal to the average annual 5-year Capital Improvement Program expenditures.

Capacity Fund Reserve

Purpose: The purpose of the Capacity Fund Reserve is to receive and accumulate Capacity Charge revenue which is used to fund new development capital projects identified in the District's capital improvement plans.

Target Reserve: There is no specific target reserve amount established for this fund.

Emergency Capital Fund Reserve

Purpose: The purpose of the Emergency Capital Fund Reserve is to provide for recovery from natural disasters, such as earthquakes, floods, and other catastrophic events, and allow for timely repair of capital infrastructure.

Target Reserve: The Target Reserve amount established for this fund is 10 percent of fixed asset value for the water system and 5 percent of fixed asset value for the wastewater system.

Rate Stabilization Fund Reserve

Purpose: The purpose of the Rate Stabilization Fund Reserve is to assist in providing a buffer and to smooth rate increases for District customers during any period where there are unexpected increases in operating costs or decreases in revenues. Reserves from the Rate Stabilization Fund may be withdrawn to reduce rate increases and to ensure any minimum debt service coverage requirements are met.

Target Reserve: The Target Reserve is established to approximately equal 10 percent of annual rate revenues, currently about \$60,000 for the water system and \$80,000 for the wastewater system.

Target Reserve Summary

Reserve Type	Reserve Target
Water System	
Operating Reserve	\$114,000
Capital Replacement Reserve	\$300,000
Capacity Reserve	n/a
Emergency Capital Reserve	\$55,000
Rate Stabilization Reserve	\$60,000
Total Water	\$529,000
Wastewater System	
Operating Reserve	\$156,000
Capital Replacement Reserve	\$520,000
Capacity Reserve	n/a
Emergency Capital Reserve	\$155,000
Rate Stabilization Reserve	\$80,000
Total Wastewater	\$911,000