

RESOLUTION NO. 21-05

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LOS OLIVOS
COMMUNITY SERVICES DISTRICT ADOPTING A FINANCIAL
RESERVES POLICY**

WHEREAS, the Los Olivos Community Services District ("District") is committed to openness and transparency regarding the use of public funds for financial reserves; and

WHEREAS, the Board of Directors of the District ("Board") seek to establish its financial reserves policy setting forth the authority and restrictions on the establishment and use of reserve funds, in accordance with California law; and

WHEREAS, it is in the best interests of the District and its residents and landowners to set and maintain limits, restrictions, and procedures in the form of a financial reserves policy.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Los Olivos Community Services District, as follows:

1. The above recitals are true and correct; and
2. The Board of Directors hereby establishes and adopts as its financial reserves policy the policy set forth in Exhibit A.
3. The authority, limits, restrictions, and procedures set forth in the financial reserves policy shall be subject to any and all applicable annual budgetary amounts and other authorizations as may be imposed by the Board from time to time.
4. As of the effective date of this Resolution, the financial reserves policy shall be deemed controlling over, and shall otherwise supersede any and all other reserve fund authority policies that may conflict with, or be contrary to, the hereby adopted financial reserves policy.
5. If any provision of this Resolution or the attached and incorporated financial reserves policy is for any reason held invalid, the validity of the remainder of this Resolution and incorporated financial reserves policy shall remain unaffected.
6. This Resolution shall become effective upon the date of adoption as set forth herein.

[SPACE INTENTIONALLY LEFT BLANK]

I **HEREBY CERTIFY** that the foregoing Resolution was passed and adopted by the Board of Directors of the Los Olivos Community Services District at a regular meeting held on the 9th day of June 2021, by the following vote:

AYES: 5

NOES: 0

ABSENT: 0

ABSTAIN: 0

ATTEST:



Robert Perrault General Manager
LOS OLIVOS COMMUNITY SERVICES DISTRICT

By: 
LISA PALMER, Board President

APPROVED AS TO FORM:

By:



G. ROSS TRINDLE, III, District Counsel


I, , Secretary of the Los Olivos Community Services District, Santa Barbara County, California, DO HEREBY CERTIFY that the foregoing is a true and accurate copy of the Resolution passed and adopted by the Board of Directors of the Los Olivos Community Services District on the date and by the vote indicated herein.

EXHIBIT A

LOS OLIVOS COMMUNITY SERVICES DISTRICT

FINANCIAL RESERVES POLICY

PURPOSE

The purpose of this policy is to provide policy and direction concerning the District's comprehensive reserve policy.

I. POLICY

The District reserves policy is a financial policy guided by sound accounting principles of public fund management. The policy establishes several reserve funds to minimize adverse annual budgetary impacts from anticipated and unanticipated District expenses.

The adequacy of the target reserve year-end balance ranges and/or annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised accordingly as necessary. The following District reserve fund categories are established. Policy A shall be implemented upon the adoption date of this policy. Policies B-E will be implemented when the project is operational as determined by the Board of Directors:

A. Project Implementation and Development Reserve

- a. Purpose: Fees are collected via property taxes preliminary to an Assessment Vote held in accordance with Proposition 218 requirements for project implementation and development.
- b. Target Balance: The target balance is 10% of the current operating budget. The current target reserve fund balance is the amount that should be funded at the beginning of each fiscal year and is reviewed annually.
- c. Methodology/Rational: This amount is a rational amount to hold in reserve to ensure that unforeseen expenses are met based on current and past budget experience.
- d. Use of Funds: The funds will be used to supplement expenses in the event of unforeseen emergencies, urgent, or critical expenses.
- e. Funding: Annual tax levies are currently based upon the formation analysis of the District. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investment through the County FIN system.

B. Capital Replacement Fee Reserve (WWTP, Sewer and Appurtenant Facilities)

- a. Purpose: Fees are collected for the future replacement of existing facilities and major equipment.
- b. Target Balance: The target balance continually fluctuates with the addition and replacement of new facilities and equipment. As new facilities and equipment are built, acquired or purchased, the target balance will increase in order to provide for the ultimate replacement of these facilities at the end of their life-cycle. As such, the current target reserve balance is the amount that should be funded at the end of each fiscal year according to the replacement reserve study, which is reviewed annually.
- c. Methodology/Rational: The District records depreciation using the straight-line method over the estimated useful lives of facilities and equipment. The fee is collected to replace District facilities and equipment as they reach the end of their useful life and also to handle unanticipated repairs during the life-cycle.
- d. Use of Funds: The funds will be used to replace facilities and equipment as necessary to continue District WWTP, sewer and appurtenant services.
- e. Funding: Annual contributions from user fees are currently based upon annual projected requirements in conjunction with the overall budget and replacement reserve study. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

C. Capital Improvement Fee Reserve

- a. Purpose: To provide funds for the orderly and timely expansion of the District facilities to meet future demand and to maintain and/or improve the District's existing level of service.
- b. Target Balance: AB1600 does not designate a target reserve balance. A Government Code 66000 Compliance Report identifies the proposed capital projects necessary to maintain and/or improve services and the amount needed to fund those capital projects. In accordance with Government Code 66000, the balance shall not exceed the amount specified by that law.
- c. Methodology/Rational: Virtually all development that occurs within the District requires the use of District facilities, plant and equipment for public services. This fee is established to insure the adequacy and reliability of such facilities, plant and equipment as development of undeveloped land occurs.

- d. Use of Funds: The funds generated by the fee will be used to acquire and/or construct various capital facilities, plant and equipment for the provision of WWTP, wastewater, appurtenant services and administrative services.
- e. Funding: Annual contributions from developer fees will depend upon new construction within the District. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

D. Rate Stabilization Fund Reserve (WWTP, Sewer and Appurtenant services)

- a. Purpose: To offset revenue shortages due to economic hardships and/or unforeseen major expenses.
- b. Target Balance: The minimum and maximum balances will be periodically reviewed by the Board and are to be maintained based upon the level of next year's revenue. The minimum level is no less than the percentage increase of the expenditures in each fund. The maximum limit will be no greater than 50 percent of next year's fund revenue.
- c. Methodology/Rational: An economic hardship or unforeseen event could cause a loss of revenue for the District. If such an event occurs, the District could use these funds to stabilize revenues while adjusting rates as necessary to compensate for the fluctuation.
- d. Use of Funds: These funds will be used to supplement differences in revenue projections resulting from economic hardships and unforeseen events.
- e. Funding: Additional contributions will not be required unless future events cause the reserve to fall below the target balance. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

E. Operating Fund (WWTP, Sewer, and Appurtenant services)

- a. Purpose: To ensure cash resources are available to fund daily administration, operations and maintenance of providing WWTP, wastewater, and appurtenant services.
- b. Target Balance: A minimum of six months of cash to fund District expenditures.
- c. Methodology/Rational: The District is required to have sufficient cash flow to meet the next six months of budgeted District expenditures (Government Code Section 53646(b)(3)). The next six months of projected cash revenues can be included as a source of cash flow to

satisfy this requirement. Revenues in excess of reserve contributions and expenditures resulting from expenditure savings or timing differences are also reflected in this fund.

- d. Use of Funds: These funds will be used to pay for expenditures according to budget and expenditure authority.
- e. Funding: Annual contributions will vary, depending upon other reserve requirements and current year expenditure requirements. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.