



April 26, 2018

TO: LOCSO Board of Directors

FROM: Renee Osborne, General Manager

SUBJECT: **Agenda Item 11H – 5/3/2018 Board Meeting**
Authorize Transfer of Water Rate Stabilization Reserve Funds to Water Contingency Reserve

DESCRIPTION

Board authorization to transfer \$98,400 from the Water Rate Stabilization Reserve Fund to the Water Contingency Reserve.

STAFF RECOMMENDATION

This item will be approved along with the Consent Calendar unless it is pulled by a Director for separate consideration. If so, Staff recommends that the Board adopt the following motion:

Motion: I move that the Board authorize the Bookkeeper to transfer \$98,400 from the Water Rate Stabilization Reserve to the General Contingency Reserve.

DISCUSSION

Currently there is \$256,856 in the Water Rate Stabilization Fund. Per Resolution 2010-07, this fund/reserve should represent 10% of the total annual Water Operation and Maintenance Budget. At the April 2nd Finance Committee, the Committee decided to send this back to the Utility Advisory Committee to discuss/recommend what constitutes “operations and maintenance costs” for the Water Department. This item was presented to the Utility Advisory Committee on April 25th.

Per Revenue & Expenditures Report 2017/2018 Budget

Total Expenditures:	\$2,368,821.00
Plus Admin Transfer:	<u>\$ 461,469.15</u>
	\$2,830,290.15

Breakdown:

A. Payroll, Services, Maintenance: and Supplies	\$1,123,090.00
B. Capital Improvements (8 th Street Well)	\$ 380,000.00
C. Debit Service:	\$ 276,731.00
D. Reserve Contributions: (Capital Outlay)	\$ 589,000.00
E. Plus Admin Transfer:	\$ 461,469.15

President
Vicki L. Milledge

Vice President
Marshall E. Ochylski

Directors
Charles L. Cesena
Louis G. Tornatzky
Christine Womack

General Manager
Renee Osborne

District Accountant
Robert Stilts, CPA

Unit Chief
Scott M. Jalbert

Battalion Chief
Greg Alex

Mailing Address:
P.O. Box 6064
Los Osos, CA 93412

Offices:
2122 9th Street, Suite 102
Los Osos, CA 93402

Phone: 805/528-9370
FAX: 805/528-9377

www.lososocsd.org

UAC RECOMMENDATION

From the Expense breakdown list, UAC recommended to use:

Item A. Payroll, Services, etc.	\$1,123 090.00
Item E. Administrative Transfer	<u>\$ 461,469.15</u>
	\$1,584,559.15

The Water Stabilization reserve should have \$158,455.91. UAC would like to transfer \$98,400.00 to the General Contingency Reserve.

Per the Board's request, Staff presented this item to the Finance Advisory Committee for their recommendation on this item to the Board of Directors.

Attachments

LOS OSOS COMMUNITY SERVICES DISTRICT
 Expanded General Ledger
 From 7/1/2005 Through 6/30/2018

70 - 500 - Water

GL Code	GL Title	Doc Number	Description	Session ID	Effective	Doc Date	Debit	Credit	Tran	Src
163	Water Stabilization Reserve									
163	Water Stabilization Reserve	JE0910-262	Book closeout of 06/30/59 FBA -500		Opening		0.00			
163	Water Stabilization Reserve	JE1011-087	Distribute BIS interest for QTR ended 09/30/10	JV06011003	6/1/2010	6/1/2010				
163	Water Stabilization Reserve	JE1011-136	Interest for qtr 12/31/10 on Rabobank accounts	JV10261001	9/30/2010	9/30/2010		32,000.00	JV	
163	Water Stabilization Reserve	JE1011-175	Distr BIS intrst@ 022811 when BIS closed to MMkt ac	JV01241105	12/31/2010	12/31/2010		44.42	JV	
163	Water Stabilization Reserve	JE1011-190	Int distrib to restrictd accts-month Mar 2011-PMMIA ir	JV02281103	2/28/2011	2/28/2011		28.34	JV	
163	Water Stabilization Reserve	JE1011-226	Invest 10/11 Reservs Incrs in Rabobank PMMIA-Water	JV03311102	3/31/2011	3/31/2011		18.90	JV	
163	Water Stabilization Reserve	JE1011-266	Alloc interest qtr 06/30/11 on Rabobank investments	JV05241102	5/25/2011	5/25/2011		18.53	JV	
163	Water Stabilization Reserve	JE1112-075	Interest of Rabobank accts-qtr 09/30/11	JV06301110	6/30/2011	6/30/2011		32,000.00	JV	
63	Water Stabilization Reserve	JE1112-140	Investment income on Rabobank PMMMI, QTR 12-31	JV103111-02	10/31/2011	10/31/2011		74.79	JV	
63	Water Stabilization Reserve	JE1112-213	Rabobank PMMIA investment inc, qtr 03/31/12	JV012512-01	12/31/2011	12/31/2011		91.12	JV	
63	Water Stabilization Reserve	JE1112-267	Fund increases in reserves as appropriated in 2011/12	JV041312-02	3/31/2012	3/31/2012		75.63	JV	
63	Water Stabilization Reserve	JE1112-291	Interest earned for QTR 06/30/12 on Rabobank Invest	JV062112-01	6/21/2012	6/21/2012		73.04	JV	
63	Water Stabilization Reserve	JE1213-122	Int qtr 09/30/12-Rabobank	JV063012-0714-02	6/30/2012	6/30/2012		32,000.00	JV	
63	Water Stabilization Reserve	JE1213-174	Allocate investment income on Rabobank PMMIA	jv103112-12	10/31/2012	10/31/2012		71.54	JV	
63	Water Stabilization Reserve	JE1213-315	Set Reserves appropriated in FY 2012/13-Water Rate	JV012613-01	12/31/2012	12/31/2012		104.23	JV	
63	Water Stabilization Reserve	JE1213-364	Alloc int on Reserves in PIMMA for qtrs 03/31 & 06/30	JV062613-01	6/26/2013	6/26/2013		96.58	JV	
63	Water Stabilization Reserve	JV06272014-03	Allocation of Reserves for FY13/14	JV063013-0823-02	6/30/2013	6/30/2013		32,000.00	JV	
63	Water Stabilization Reserve	2014-2015 Audit #	To record 2014-2015 Audit AJEs	JV06272014-03	6/27/2014	6/27/2014		158.76	JV	
63	Water Stabilization Reserve	JV06302015-14	Post Reserve activity for FY14/15	2014-2015 Audit A	6/30/2015	6/30/2015		32,000.00	JV	
63	Water Stabilization Reserve	JV06302015-14	Post Reserve activity for FY14/15	JV06302015-14	6/30/2015	6/30/2015		32,000.12	JV	
63	Water Stabilization Reserve	JV06302015-14	Post Reserve activity for FY14/15	JV06302015-14-R	6/30/2015	6/30/2015		32,000.00	JV	
63	Water Stabilization Reserve	JV06302015-14	Post Reserve activity for FY14/15	JVPOSTMD06301	6/30/2015	6/30/2015	32,000.00		JV	
63	Water Stabilization Reserve	JV AG 2-2-18 Audi	To adjust reserves to actual budgeted amounts	JVPOSTMD06301	6/30/2015	6/30/2015	32,000.00		JV	
63	Water Stabilization Reserve			JV AG 2-2-18 Audi	6/30/2017	6/30/2017		32,000.00	JV	
								<u>64,000.00</u>		
								<u>320,856.00</u>		
								<u>256,856.00</u>		

Balance Water Stabilization Reserve

DATE: June 3, 2010
AGENDA ITEM: 5H
() Approved
() Denied
() Continued

RESOLUTION 2010 - 07

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
ESTABLISHING BUDGET RESERVE POLICIES**

WHEREAS, Community Services District Law is established in Section 61000 et seq. of the Government Code; and

WHEREAS, Government Code Section 61040(a) states, in relevant part, "a legislative body of five members known as the board of directors shall govern each district. The board of directors shall establish policies for the operation of the district"; and

WHEREAS, Government Code Section 61045(g) states, "the board of directors shall adopt policies for the operation of the district, including, but not limited to, administrative policies, fiscal policies, personnel policies, and the purchasing policies required by this division"; and

WHEREAS, Government Code Section 61110(b) states, in relevant part, "the board of directors may divide the preliminary budget into categories, including, but not limited to, the following: . . . (6) Designated reserve for capital outlay. (7) Designated reserve for contingencies"; and

WHEREAS, Government Code Sections 61112(a) and (c) state "(a) in its budget, the board of directors may establish a designated reserve for capital outlay and a designated reserve for contingencies. When the board of directors establishes a designated reserve, it shall declare the exclusive purposes for which the funds in the reserve may be spent. The funds in the designated reserve shall be spent only for the exclusive purposes for which the board of directors established the designated reserve. The reserves shall be maintained according to generally accepted accounting principles." And "(c) If the board of directors finds that the funds in a designated reserve are no longer required for the purpose for which it established the designated reserve, the board of directors may, by a four-fifths vote of the total membership of the board of directors, discontinue the designated reserve or transfer any funds that are no longer required from the designated reserve to the district's general fund"; and

WHEREAS, based on the Staff Report, staff presentation, and public comment, the Los Osos Community Services District ("District") Board of Directors finds that water, drainage, fire protection and waste disposal are vital services to protect the health, safety and welfare of District residents and customers; and

WHEREAS, based on the Staff Report, staff presentation, and public comment, the District Board of Directors further finds that these policies help protect the health, safety, and welfare of District residents and customers by establishing a financial plan to:

- A. Address unforeseen and unexpected contingencies of operating District facilities and equipment; and
- B. To timely fund the replacement of District facilities and equipment as they wear out; and

WHEREAS, the establishment of adequate reserves is critical to the successful and stable short and long term operation of the District, and

WHEREAS, pursuant to Community Services District Law, the District, by this Resolution, establishes reserve categories commencing with the adoption of the Fiscal Year 2010-2011 Budget for the District's fire services, water services, drainage services, and to establish the purposes for each of the reserve categories.

NOW THEREFORE, THE BOARD OF DIRECTORS OF THE LOS OSOS COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE, DECLARE, AND DETERMINE THAT:

SECTION 1: RESERVE POLICIES

A. Fire Department - Fund 301:

1. A Vehicle & Equipment Replacement Reserve shall be established for the orderly and timely replacement of emergency equipment, apparatus and accessories. The annual funding goal is equal to the amount of depreciation of replaceable equipment for the year increased by inflationary costs determined by the higher of an amount based on CPI change as per Section 3 or an amount based on industry trends on replacement values. During the years that appropriating the annual funding goal is not financially feasible, a minimum funding of \$72,000 is appropriated. Until such time that the maximum funding goal is reached, catch-up funding will be appropriated in any year whenever it becomes financially feasible. The maximum funding goal is for the reserves to be equal to the total accumulated depreciation of replaceable equipment increased by inflationary costs as described in this section. An equipment replacement schedule is prepared by the Fire Chief or his/her designee that will validate increases or decreases to the reserves funding as requested in the budget of the upcoming year in accordance with this section.
2. A Capital Outlay Reserve shall be established for the replacement, upgrade, expansion or improvements of buildings, structures and facilities that are used by the department to house personnel or equipment. Funding goal is an annual appropriation of \$10,000, with a cumulative maximum goal of \$5 million.
3. A General Contingency Reserve with a maximum goal of \$50,000 shall be established to meet contingency expenditures resulting from natural disasters or from unforeseen circumstances. Once the maximum goal is reached, it shall increase according to the increases in the CPI index as per Section 3. Annual funding goal for this reserve account is \$10,000 until such time when the Reserve reaches the maximum goal of \$50,000, at which time the annual funding will be computed using the change in the CPI index as per Section 3.

B. Water Department – Fund 500:

1. A Rate Stabilization Reserve shall be established to:
 - i. Equalize revenues should District income from the Utility billings decrease due to conservation efforts initiated by the District or by the public; and
 - ii. Provide a funding source to offset operation and maintenance revenues associated with fee waivers or reductions approved by the District Board of Directors in accordance with District policies and procedures established pursuant to Government Code Section 61123).(d). Reserves in this category shall be funded by water sales revenues.

The funding goal of this Rate Stabilization Reserve shall be \$32,000 annually until such time as this Rate Stabilization Reserve reaches a total of ten (10%) percent of the total annual water Operation and Maintenance Budget as approved by the Board of Directors from time to time.

2. A General Water Contingency Reserve shall be established for Emergency Operations should a natural or other disaster occur that would temporarily interrupt the District's income from Utility bills, to repair District facilities, and to provide funding for unforeseen circumstances not covered by the District's Operation and Maintenance Budget. The funding goal of this reserve account is an annual appropriation of \$55,000 per year up to a maximum cumulative goal of sixty (60%) percent of the District's annual Operation and Maintenance Budget as approved by the Board from time to time.
3. A Water Capital Outlay Reserve will be established for the replacement of water infrastructure. The funding goal of the Water Capital Outlay Reserve is to fund the timely replacement of water infrastructure and facilities as referenced in the District's Water Master Plan or other subsequent water planning documents approved by the District. The annual funding goal of this reserve is \$60,000 per annum with a short-term cumulative funding goal of \$470,000 and a long-term cumulative funding goal equal to the total of capital improvement projects identified in the Water Master Plan which are still not completed which as of July 1, 2010 total \$12.7 million.
4. A Water Quality Reserve shall be established to fund studies on the causes of pollution and contamination of the District's water supply, to mitigate the problem so as to continue delivery of safe drinking water and fund short-term and long-term solutions to prevent and mitigate water contamination problems in the future for the whole community.

No annual funding goal is set but a seed funding of \$124,719 from a settlement of a water pollution case is hereby transferred to this reserve.

Annual investment or interest income earned by the reserve will increase this reserve.

C. Drainage - Fund 800:

1. A Drainage Capital Outlay Reserve fund shall be established for the replacement of equipment and facilities associated with the operation of District drainage services. The funding goal of this Capital Outlay Reserve will be \$10,000 per annum with a total funding goal of \$500,000. The total funding goal may be adjusted by the Board of Directors from time to time as part of the adoption of the annual budget. The maximum goal is set to a level that is sufficient to replace at least half of the drainage equipment and facilities at any point.
2. A General Contingency Reserve shall be established for contingency expenditures resulting from natural disasters or unforeseen circumstances. The maximum funding goal is \$50,000 and once reached, it shall increase in accordance with the CPI index change as per Section 3. The funding goal for this reserve account is \$5,000 per annum until such time as the General Contingency Reserve shall reach its overall goal at which time the General Contingency Reserve shall be funded with an annual increase in accordance with the CPI index as per Section 3.

D. Solid Waste – Fund 650

1. General Contingency Reserves not to exceed \$ 300,000 is established to cover expenditures estimated to equal no more than six months of operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted at all times. Annual appropriation for this reserve will be no more than \$ 50,000 annually until the maximum cumulative reserve goal of \$300,000 is reached at which time funding will equal the change in the CPI index as per section 3.

E. Septic Systems in Bayridge and Vista de Oro - Funds 200 and 400

1. Capital Outlay Reserves - Any funds that are not needed to fund appropriations for operating accounts in these funds in any year will all be placed in the Capital Outlay Reserves for each of these funds. These will be used to maintain and improve aging septic system infrastructures in these two locations. No maximum goals are set for these reserves. However, should there be remaining balances in these reserves at the time when a new district-wide sewer system gets operational, the remaining balances, after paying off any internal loans, are refunded to the property owners who made the payments.

SECTION 2: RESERVE FUNDING

Reserve funding sources include rates, charges, special taxes, and property taxes collected by the District related to the services referenced in Section 1 of this Resolution.

Any and all interest accruing from funds held in reserves will be added to the Reserve Balance.

In any year where there is a major shortfall in revenues due to unusual circumstances which may or may not be under the control of the Board of Directors, funding for Reserves is held in abeyance and is subsidiary to the funding of Operations and Maintenance expenditure accounts. After the circumstance is resolved, funding for Reserves for all years that were not fully funded will be restored whenever feasible. A description of the unusual circumstance will be presented to the Board at the time the Proposed Budget or the Final Budget is presented along with a statement of the impact on the reserves funding goals.

SECTION 3: INCREASE OF RESERVES USING CONSUMER PRICE INDEX (CPI)

Change to Reserves using the change in CPI Index as used in Section 1 is computed as the average of the annual averages from the beginning of the latest closed fiscal year to the end of that fiscal year using the Los Angeles-Riverside-Orange CPI and the San Francisco-Oakland-San Jose CPI for all items.

SECTION 4: TRANSFERS

Pursuant to Government Code Section 61112(c), the District Board of Directors may only transfer reserve funds for purposes other than the purposes outlined in Section 1, above, by a four-fifths (4/5) vote of the total membership of the Board of Directors and upon a finding that the reserves are no longer required for the designated purpose. Reserve transfers are limited to funding shortfalls in other related budget categories of the particular service and to funding shortfalls in administrative services budget.

SECTION 5: INCONSISTENCY

To the extent that the terms or provision of this Resolution may be inconsistent or in conflict with the terms or conditions of any prior District motions, resolutions, rules, or regulations adopted by the District, governing the same subject matter thereof, then such inconsistent and conflicting provisions of prior motions, resolutions, rules, and regulations are hereby repealed.

SECTION 6: SEVERABILITY

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsection, sentence, clause or phrase be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

SECTION 7: INCORPORATION OF RECITALS

The recitals to this Resolution are true and correct and incorporated herein by this reference.

Upon the motion of Director Sparks, seconded by Director Cesura
and on the following roll call vote:

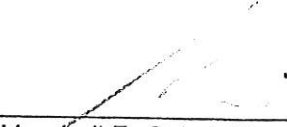
AYES: Sparks, Cesura, Kelly, Saret, Ochylski

NOES: _____

ABSENT: _____


ABSTAIN: _____

The following Resolution is hereby passed, approved and adopted by the Board of Directors of the Los Osos Community Services District on the 3rd day of June 2010.



Marshall E. Ochylski
President, Board of Directors
Los Osos Community Services District

ATTEST:



W. Dan Gilmore
General Manager and Secretary to the Board