

TWAIN HARTE COMMUNITY SERVICES DISTRICT
Policy and Procedure Manual

POLICY TITLE: Reserve Policy
POLICY NUMBER: 3011
ADOPTED: April 10, 2014
AMENDED: May 12, 2016

3011.10 **POLICY PURPOSE** - The District will establish, dedicate and maintain, reserve accounts (fund balances/net assets) to meet known and estimated future obligations and to ensure available cash for normal operations. Adequate reserves will also ensure that the District will have sufficient funding available to meet its capital and debt service cost obligations, as well as any unfunded mandates, such as regulatory requirements.

3011.20 **RESERVE ACCOUNT TYPES AND DEFINITIONS** - Reserve accounts will be organized and maintained in accordance with Governmental Accounting Standards Board (GASB) classifications (see Appendix A) with further designations and titles established by the Board of Directors as detailed below:

3011.21 NON-SPENDABLE RESERVE ACCOUNTS (defined in Appendix A)

3011.22 RESTRICTED RESERVE ACCOUNTS (defined in Appendix A)

3011.22.1 Expansion Reserves

These reserves consist of capacity charges and are restricted to fund only growth-related capital improvements or pay for growth-related debt. Capacity charges are fees charged for the purpose of defraying all or a portion of the cost of public facilities related to a new service connection. By law (GC 66000), capacity fees and the investment interest income earned by moneys in these funds, shall be expended only for these purposes.

3011.22.2 Debt Service Reserves

Reserves for debt service consist of funds required to be held by debt issuance documents; i.e. official statements and trustee agreements. The amount of such reserves will be established in accordance with the legal covenants of the District's debt issuance documents.

3011.23 COMMITTED RESERVE ACCOUNTS (defined in Appendix A)

3011.23.1 Capital Improvement/Asset Replacement Reserve

The Capital Improvement/Asset Replacement Reserve will be established to support the future capital needs of the District. This may include replacement costs of existing facilities or equipment as it reaches the end of its useful life, funding major repairs that extend the useful life of facilities, or funding new capital projects. The level of funding will be dependent upon the Districts capital improvement plan and level of yearly asset depreciation. Staff will prepare an inventory of all capital items along with a plan for timely replacement as the useful life expires. The goal of this policy is to “fund depreciation” and new capital improvements at one hundred percent (100%) in the future.

3011.23.2 Rate/Revenue Stabilization Reserve

This reserve is intended to provide a buffer should revenue estimates in any year not meet projections. The reserve level will vary over time with a goal of maintaining at minimum an amount equal to ten percent (10%) of revenues that are subject to fluctuation (e.g. rate revenue and secured/unsecured property taxes).

3011.23.3 Water Rights Reserve

The purpose of this reserve is to cover the cost associated with efforts to secure, protect and preserve the District’s water rights, which may include funding projects and other activities that will enhance, protect, secure and preserve water rights for beneficial use.

3011.24 ASSIGNED RESERVE ACCOUNTS (defined in Appendix A)

3011.24.1 Operating Reserves

These reserves ensure adequate levels of available cash to account for timing differences between revenue collection and payment of expenses. Operating reserves may also be used to cover unanticipated operating expenses, emergency expenses or revenue anomalies. The operating reserve level for each fund will vary over time with a goal of maintaining three months (enterprise fund) or six months (governmental fund) of anticipated (budgeted) annual expenditures for operating costs and debt service.

3011.30 ACCUMULATION AND DISPOSITION OF RESERVE FUNDING

The board shall review all reserve accounts annually and make a determination regarding the continuing need for each reserve fund, the appropriate levels of accumulation, and the conditions necessary to utilize the reserve funds.

3010.31 Creating Reserve Accounts - Additional reserve funds may be established by Board resolution, specifying the following:

- a. The purpose for which the reserve is created.
- b. Minimum and maximum parameters for the accumulation of the monies in the reserve fund, if applicable.
- c. Conditions under which reserve funds shall be expended or transferred.

3010.32 Authorization to Spend Unrestricted Reserves - All expenditures drawn from Committed Reserve Accounts (see section 3011.22) require prior Board approval unless previously authorized by an approved budget document.

Appendix A

FUND BALANCE DEFINITIONS UNDER GASB 54

GASB 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to honor constraints imposed upon the use of the resources reported. In addition, GASB 54 requires the identification of the authorization level and type of action for Committing or Assigning fund balances.

A. Nonspendable Fund Balance/Reserves

Resources that are inherently nonspendable. The amounts may be in a nonspendable form (such as inventory or prepaid expense) or the amounts may be required by legal or contractual provisions to be maintained intact (such as a revolving fund or principal of an endowment).

B. Restricted Fund Balance/Reserves

Resources that are subject to externally enforceable legal restrictions; these restrictions are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Examples of restricted fund balance for the District include funds restricted for debt service.

C. Committed Fund Balance:

Resources that are designated for specific purposes by a formal action of the highest level decision-making authority. Action to commit funds must occur within the fiscal reporting period while the amount committed may be determined subsequently.

Authority to Commit – The highest level of decision-making authority for the District is the Board of Directors and the commitment must be made by a formal action (defined as either resolutions or minute actions approved by the Board at a noticed public meeting). The constraint remains binding unless removed in the same formal manner by the Board.

D. Assigned Fund Balance:

Resources that are intended for a specific purpose as evidenced by the District's adopted budget and/or long-term financial plan, or to eliminate a projected deficit in the subsequent year's budget. Assignments may be made after the end of the fiscal year but prior to financial statement issuance.

Authority to Assign – Upon action by the Board, the General Manager shall assign amounts to be used for specific purposes. Such assignments cannot exceed the available (spendable, unrestricted, uncommitted) fund balance in any particular fund.