

Bear Valley Community Services District

BUDGET AND FISCAL POLICIES

6. Reserve Policies

The District will establish, dedicate and maintain, as appropriate, reserves annually to meet known and estimated future obligations. If reserves are depleted, the reserves should be replenished over a five (5) year period to re-establish targets.

- 6.1 **Emergencies:** Money set aside for (1) repair, restoration or replacement of district facilities damaged as the result of natural disasters, (2) matching fund assistance for cost sharing required under federal or state disaster assistance programs and (3) district personnel overtime costs and supplies used during eligible disaster response and recovery activities, including the cost of administering those activities.

Resolution 03-1065 (12/13/03) established a minimum Emergency Fund balance of \$123,000 on 7/1/03 with adjustments for inflation each June 30 thereafter.

- 6.2 **Capital improvements:** Money set aside for the construction or acquisition of new infrastructure to increase system capacity, typically pertaining to water and wastewater funds. These monies can be used only for improvements that increase capacity; they cannot be used for simple replacement of an existing asset or for ongoing operations. Two funds have monies designated for capital improvements, the Water Development Fund and the Wastewater Development Fund. Monies in these funds are designated for projects that increase the capacity of the District's water and wastewater systems. Designated fund balances should be sufficient to construct the capital improvements budgeted for the following fiscal year or the multi-year capital improvement plan if financing has already been secured.

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- 6.3 **Asset replacements:** Money set aside to replace, rehabilitate, improve or acquire infrastructure or other fixed assets, typically pertaining to water, wastewater and road funds and the general fixed assets account group.

Resolution 06-1246 (12/9/06) dedicates 7% of the Water Enterprise Fund's annual expenditure budget to the Water Reserve Fund each year for ten years, plus 20% annual replenishment of expended amounts. The target is the cumulative annual contribution.

Resolution 06-1248 (12/9/06) dedicates 7% of the Solid Waste Enterprise Fund's expenditure budget to the Solid Waste Reserve Fund each year for ten years, plus 20% annual replenishment of expended amounts. The target is the cumulative annual contribution.

In the General Fund, the asset replacement reserve is any amount remaining after its contingency reserve and police contingency reserve targets are met.

- 6.4 **Debt service:** Money set aside to make scheduled principal and interest payments on long-term debt.

The Water Bond Redemption Fund must pay principal and interest each August 31 and interest only each February 28 on \$4,530,000 in general obligation bonds that were issued in 2002 for water system improvements and to refund prior bonds. The cash balance target on July 1 is the full payment due on August 31 plus 10% for uncertainties.

The Assessment District 95-1 Bond Redemption Fund must pay \$108,598 each January 13 for the State Revolving Fund loan that was used to rebuild and expand the wastewater treatment facility. Since the district receives approximately 52% of the assessment revenue by that date each fiscal year, the cash balance target on July 1 is 50% of the payment.

Inter-fund loans are permitted with Board approval. Unless otherwise restricted by law, the fund borrowing the cash must repay the loan with interest at the current Local Agency Investment Pool /Kern County Investment Pool average interest rate.

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- 6.5 **Contingencies (a.k.a. working capital):** Money set aside for (1) cash flow requirements, (2) unforeseen operating expenses, such as new regulatory requirements, (3) revenue shortfalls, (4) economic uncertainties including downturns in the local or national economy and (5) other financial hardships that may arise. **“Police Contingencies”** is money set aside in the general fund to ensure the continued “full-force” operation of the district’s police department, which can be severely impacted by state property tax shifts. Targets for various funds are as follows:

Governmental Fund Types:

General Fund: 50% of next fiscal year’s expenditure budget

Road Fund: 40% of next fiscal year’s budget (excluding road contract)

Enterprise Funds:

Water Enterprise Fund: 25% of next fiscal year’s operating budget

Wastewater Enterprise Fund: 20% of next fiscal year’s operating budget

Solid Waste Enterprise Fund: 20% of next fiscal year’s operating budget

Post Office Enterprise Fund: Zero net assets (Resolution 06-1249, 12/9/06)

- 6.6 **Rate stabilization:** Money set aside to normalize fluctuations in revenues so that rates for water, sewer and solid waste services will be more stable. This money is used as a “buffer” to reduce the frequency of changes to the District’s water, sewer and refuse rates, with the intent that annual cost-of-living rate increases will be sufficient for continued operations.

To the extent possible, Board-designated fund balances and net assets are fully funded at the beginning of each fiscal year based on the formulas found in the appropriate ordinances, resolutions or approved budget.

The various reserved and/or designated fund balances and net assets are funded in the following priority:

First priority: emergency, capital improvement, asset replacement, debt service, self-insurance;

Second priority: contingency, police contingency;

Third priority: rate stabilization.

Resolution 97-899 (3/8/97) designated a portion of each enterprise fund’s net assets for rate stabilization. The amount is set at a maximum of 5% of each fund’s operating budget. By maintaining a rate stabilization reserve balance rate increases should never need to be greater than the annual cost-of-living adjustment equal to the inflation rate.