

**SANTA YNEZ COMMUNITY SERVICES DISTRICT
MEMORANDUM**

TO: Board of Directors
FROM: Loch Dreizler, General Manager
Alicia Marin, Office Manager
DATE: November 15, 2023
SUBJECT: Reserve Policy

Proposed Motion / Recommendation

Review and discuss the reserve policy established in Resolution 15-01 (see attached)

Proposed Motion: No motion is necessary.

Alternative for Consideration: No alternatives.

Policy Implications

- The District reserve policy adopted resolution 15-01 on January 21, 2015, replacing resolutions 11-04.
- Resolution 15-01 notes the following types of reserves:
 1. Operating
 2. Future Capacity
 3. Street Lighting
 4. Replace/Expansion

Fiscal Implications

The District references Resolution 15-01 to maintain required reserves and to determine funds available for capital improvement projects, vehicles, and expansion.

Discussion

Contributions to the Fund **Replace Expansion Reserve are in lieu of funding depreciation.**
See the attached District calculations for current reserve funding.

The District will consider the amount of money available in reserves relative to the timing of planned and foreseeable capital projects and equipment and other pertinent considerations each year as part of the annual budget approval process.

The in-lieu of depreciation does simplify asset management; however, this method can minimize the significance of having a specific sub-category for equipment, infrastructure, or facilities. For example, if the vehicles have a specific line item for depreciation, those accumulated funds can be accessed and more easily rationalized to offset the purchase of a new vehicle.

Attachment:

1. Reserve and Capital Improvement Plan (CIP) Fund Calculations
2. Summary of Reserve Policy

Reserve and Capital Improvement Plan (CIP) Fund Calculations

	Dates for Reference - July 1 of each year				Notes
	2012	2015	2021	2023	
Savings (Banks, CDs, LAIF)	\$ 2,730,762	\$2,671,400	\$ 5,076,918	\$ 5,880,660	
Reserves					
Operating	\$ 473,000	\$ 643,000	\$ 709,284	\$ 937,300	Six months of operating expense
Future Capacity	\$ 125,000	\$ 770,000	\$ 978,076	\$ 880,000	2021 Rate Study, to be recalculated at the next rate study
Street Lighting	\$ 20,000	\$ 20,000	\$ 45,338	\$ 50,000	funded from a portion of sales tax
Replace / Expansion	\$ 2,112,762	\$ 1,238,400	\$ 3,344,220	\$ 4,013,360	Enhance, replace, and expand District's or Solvang's facilities This reserve is also in lieu of funding depreciation.
Building Fund	\$ 56,000	\$ 140,000	\$ 140,000	\$ 140,000	Maintain a Building Reserve of \$140,000
Horizon Drive Fund	\$ -	\$ -	\$ 140,000	\$ 129,292	These are funds remaining from the Horizon Drive Project
Capital Improvements Projects, Vehicles & Equipment	\$ 2,056,762	\$ 1,098,400	\$ 3,064,220	\$ 3,744,068	Total after the Building Fund and Horizon Drive Fund reserves have received their prescribed funding,

Note: The Board of Directors have done an excellent job accumulating reserves to consider capital improvement projects and purchase vehicles and equipment.

Let's make preliminary assumptions for a future discussion about investments and Capital Improvement Plans (CIP).

If the Board approved spending about \$645,000 in capital improvements, leaving about **\$3,100,000** in our Capital Improvement Plan funds.

For investing in CDs', we can invest 30% of \$3,100,000, or about \$930,000

District Reserve Policy

The District has a written reserve policy detailed in Resolution 15-01. A reserve policy provides a basis to deal with unanticipated reductions in revenues, changes in the costs of providing services, fixed asset repair and replacement, natural disasters, and other issues. It also provides guidelines to maintain the financial health and stability of the wastewater enterprise.

Operating Reserve

The purpose of the Operating Reserve is to provide working capital to meet cash flow needs during normal operations and support the utility's operation, maintenance, and administration. This reserve ensures that operations can continue should there be significant events that impact cash flow. The District Policy reserve target balance to be maintained is six months (180 days) of annual O&M expense. The Operating Reserve receives revenue from the operating surplus of the Enterprise Fund. Since O&M expense increases each year, the reserve to be maintained will increase annually also.

Future Capacity Reserve

The purpose of the Future Capacity Reserve is to fund the purchase of additional capacity in the City of Solvang's WWTP. The Future Capacity Reserve receives revenues from the Enterprise Fund and Capacity Charges. The reserve balance in this fund equals the cost to purchase 10 percent additional capacity (currently 30,000 gpd) in the Solvang WWTP. The price per gallon of additional capacity used to determine the reserve level is the current book value of the plant divided by the total plant capacity of 1.5 mgd.

It is recommended that the amount to be held in reserve be at least equal to the District's estimated cost to purchase capacity at the City of Solvang's WWTP. The current estimate to buy capacity is \$6,337 per residential unit. Using this amount, the proposed reserve balance to be maintained in the fund is the following.

Future Capacity Reserve = $10\% \times 300,000 \text{ gpd} / 215 \text{ gpd per SFR} \times \text{Capacity Charge}$

Future Capacity Reserve = $30,000 / 215 \times \$6,337$

Future Capacity Reserve = \$880,000

This is the reserve amount used in this Study as the Target Reserve. The reserve amount should be updated with the next rate study update.

Building Reserve

The Building Reserve is a sub-account of the Replace/Expansion Reserve listed below and is established at \$140,000 to be maintained annually.

