

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

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"Pride in Community Service"

<http://vvcasd.org>

into@vvcasd.org

RESOLUTION 229-24

March 5, 2024

REVISING THE VVCS D RESERVE POLICY

WHEREAS, the Board of Directors of Vandenberg Village Community Services District is committed to operating and maintaining the District's water and wastewater systems in a fiscally sound and responsible manner; and

WHEREAS, the Board of Directors desires to provide cost-effective and efficient public services through a stable rate structure and gradual rate increases; and

WHEREAS, toward the goal of fiscal management and long-range planning, the Board of Directors of the Vandenberg Village Community Services District recognizes the need to maintain reserve funds; and

WHEREAS, on February 3, 1994, the Board of Directors adopted Resolution 99-94 establishing a District reserve policy; and

WHEREAS, on May 2, 2006, the Board of Directors rescinded Resolution 99-94 and adopted Resolution 176-06 revising the District reserve policy.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vandenberg Village Community Services District that:

Section 1. This resolution rescinds and replaces Resolution 176-06.

Section 2. The Reserve Policy attached hereto as Exhibit "A" is approved and adopted.

Section 3. This resolution shall be effective immediately.

PASSED AND ADOPTED by the Board of Directors of the Vandenberg Village Community Services District this 5th day of March, 2024 upon motion by Director Gonzales, seconded by Director Stassi, and as approved by the following vote:

Roll call vote, to wit:

AYES: Directors Brooks, Gonzales, Heuring, Stassi

NOES: Director Bumpass

ABSENT: None

ABSTAIN: None

Resolution 229-24 is hereby adopted.

Robert Bumpass, President
Board of Directors

ATTEST:

Stephanie Garner
Secretary to the Board of Directors

VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

RESERVE POLICY

EXHIBIT A TO RESOLUTION 229-24 (REVISION 2)

POLICY STATEMENT

Vandenberg Village Community Services District shall maintain reserve funds from existing unrestricted revenues as designated by this policy. This policy establishes the procedure and level of reserve funding to achieve the following goals:

- Provide economic stability during emergencies; and
- Maintain operational sustainability during periods of economic uncertainty; and
- Fund the Capital Improvement Plan.

This Reserve Policy establishes guidelines and procedures for allocating and reporting fund balances following Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The adequacy of the targeted reserve balances and/or annual contributions shall be reviewed annually during the budgeting process and may be revised accordingly.

ACCOUNTING GUIDANCE

GASB Statement No. 54 requires the classification of fund balances as non-spendable, restricted, committed, assigned, or unassigned.

- *Non-spendable Fund Balance* – amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – amounts restricted externally by creditors, grantors, contributors, or laws and regulations of other governments or restricted by law through constitutional provisions or enabling legislation.

- *Committed Fund Balance* – amounts that can only be used for specific purposes according to constraints imposed by formal action of the Board of Directors.
- *Assigned Fund Balance* – amounts that are constrained by the Board's intent to be used for specific purposes but are neither restricted nor committed.
- *Unassigned Fund Balance* – amounts that have not been restricted, committed, or assigned to specific purposes.

DEPRECIATION EXPENSE

The District shall establish and maintain a Depreciation Schedule of assets. The Useful Life Guidelines, published by the Office of the State Controller, and the Straight-Line method will be used to calculate monthly depreciation expenses. Depreciation will be included in the annual operating expense budget. The District shall establish rates to generate sufficient revenue to fully fund this depreciation expense and place it in reserves.

RESERVE CONTRIBUTION FACTOR

Depreciation alone is insufficient to fund the replacement of equipment, infrastructure, and facilities. Therefore, the District shall incorporate a reserve contribution factor into its rate structure. This factor, expressed as a percentage of the annual water and wastewater operating expense budgets, will generate revenues specifically for reserves. The District shall consider the amount of money available in reserves relative to the goal, investment performance, the timing of planned and foreseeable capital projects, the strategic plan, and other pertinent considerations in approving the reserve contribution factor each year as part of the annual budget approval process.

RESTRICTED FUND BALANCE

Connection fees, development fees, and funds collected from development agreements paid to the District to serve new development with water and wastewater services are designated as restricted reserves. They will be deposited into a separate, interest-bearing account and be used to expand infrastructure and facilities to serve new development as defined in the capacity charge rate calculations. Funds will be administered and maintained per Government Code § 66013.

ASSIGNED FUND BALANCE

The District shall maintain reserve fund balances in the following order of importance:

Emergency Reserve (Water, Wastewater)

Purpose: This reserve is intended as protection against catastrophic loss and to provide a cushion for inaccuracy in long-range planning.

Target Balance: The minimum balance shall be equal to 10 percent of the audited value of capital assets. The maximum balance shall be equal to 15 percent of the audited value of capital assets.

Operating Reserve (Water, Wastewater)

Purpose: This reserve is intended as a cushion to fund three months of operating expenses.

Target Balance: The target balance shall be equal to 25 percent of the current annual operating expense budget.

Capital Reserve (Water, Wastewater)

Purpose: This reserve is intended to replace assets, fund capital projects, and minimize the impact of capital debt financing on future rates. The District recognizes that Capital Reserves may not be sufficient to fully fund capital asset expenditures and financing may be required.

Target Balance: The target balance shall be equal to 50 percent of the audited accumulated depreciation.

LRWRP Reserve (Lompoc Regional Wastewater Reclamation Plant)

Purpose: This reserve is intended to fund capital projects and to minimize the impact of future debt financing on rates for the contractual obligations at the Lompoc Regional Wastewater Reclamation Plant.

Target Balance: The minimum balance shall be equal to 15 percent of the audited value of the capacity rights of the Lompoc Regional Wastewater Reclamation Plant. The maximum balance shall be equal to 25 percent of the audited value of that asset.

MINIMUM THRESHOLD

The minimum balance for the assigned water and wastewater reserve funds shall be equal to 50 percent of budgeted operating expenses per California Government Code § 53646(b)(3).

EXCESS RESERVES

Fund balances over the cumulative maximum fund balance shall be used to pay down long-term liabilities such as capital plan financing or unfunded pension liabilities.

INTEREST INCOME

Reserves will be segregated from operating funds and invested per the District's investment policy. Interest income shall be allocated to the appropriate fund balance per California Government Code § 53647.

ACCEPTABLE USE OF RESERVES

Reserves should not be used for recurring annual operating costs except when economic conditions require the use of Operating or Emergency Reserves to provide short-term relief.

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Capital Reserve (Water, Wastewater)

Purpose: This reserve is intended to replace assets, fund capital projects, and minimize the impact of capital debt financing on future rates. The District recognizes that Capital Reserves may not be sufficient to fully fund capital asset expenditures and financing may be required.

Target Balance (Water): The target balance shall be equal to \$2.5 million, adjusted for inflation annually.

Target Balance (Wastewater): The target balance shall be equal to 50 percent of the audited accumulated depreciation.

LRWRP Reserve (Lompoc Regional Wastewater Reclamation Plant)

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