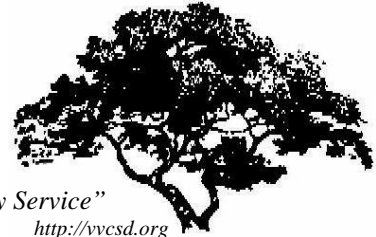


VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT

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"Pride in Community Service"

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RESOLUTION 176-06

May 2, 2006

BY THE BOARD OF DIRECTORS OF VANDENBERG VILLAGE COMMUNITY SERVICES DISTRICT ESTABLISHING A 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, during the period 1988 to 2005 when the District was repaying \$5.4 million in revenue bonds, the District was required to satisfy a 20 percent bond covenant in order to demonstrate financial capability to fund operations, capital projects, and debt service; and

WHEREAS, through satisfying the bond covenant and funding depreciation, the District was able to accumulate reserves; and

WHEREAS, although there is no longer a bond covenant requirement, the District plans to continue contributing funds in a regular, disciplined manner to build and sustain reserves at a level sufficient to fund operations, capital projects, and emergencies.

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

1. 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.
2. Depreciation alone is insufficient to fund 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 annual wastewater operating expense budgets, will generate revenues specifically for reserves. The District shall take into account 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.
3. The goal of the District is to maintain reserves at a level that equals or exceeds the sum of the following components:
 - a. Operating Reserve Requirement: 25 percent of the current combined annual operating expense budget. This amount is intended as a cushion to fund three months of operating expenses.
 - b. Capital Reserve Requirement: Accumulated depreciation plus 25 percent of the current combined annual water and wastewater expense budget. This amount is intended to replace assets and fund capital projects.
 - c. Emergency Reserve Requirement: 10 percent of the value of capital assets. This amount is intended as protection against catastrophic loss and to provide a cushion for inaccuracy in long range planning.
4. Reserves will be segregated from operating funds and invested in accordance with the District's investment policy.
5. 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. Funds will be administered and maintained in accordance with Government Code § 66013.

6. This resolution rescinds and replaces Resolution 99-94.

PASSED AND ADOPTED by the Board of Directors of the Vandenberg Village Community Services District this 2nd day of May, 2006 upon motion by Director Wyckoff, seconded by Director Fox and as approved by the following vote:

Roll call vote, to wit:

AYES: Directors Brooks, Fox, Redmon, Rowland, and Wyckoff

NOES: None

ABSENT: None

ABSTAIN: None

Resolution 176-06 is hereby adopted.

/s/ Robert Wyckoff

Bob Wyckoff, President
Board of Directors

ATTEST:

/s/ Stephanie Vlahos-Rivera

Stephanie Vlahos-Rivera
Secretary to the Board of Directors