

CRESTLINE SANITATION DISTRICT

MEMORANDUM

DATE: 07/12/2021

TO: BOARD OF DIRECTORS
Crestline Sanitation District

FROM: RICK DEVER
General Manager

SUBJECT: DISTRICT RESERVES POLICY 2021-22

A. RECOMMENDATION

I recommend to adopt Resolution No. 078

B REASON FOR RECOMMENDATION

The Resolution for the Reserve Policy needed updates to reflect the verbiage of the intended use of the reserves.

E. FISCAL INFORMATION

No impact.

E. ATTACHMENTS

Resolution No. 078
Resolution No. 070
Calculation of Reserves for Budget F/Y 2021/2022

RESOLUTION NO. 078

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE CRESTLINE SANITATION DISTRICT
ESTABLISHING A POLICY FOR DISTRICT RESERVES
FOR FISCAL YEAR 2021-22**

WHEREAS, this Board is charged with responsibility for providing sewer collection and treatment service to and for customers located within the District's boundaries; for the construction, operation, maintenance, repair and replacement of facilities to treat waste water from District customers, and accumulation of revenues necessary to accomplish these purposes; and

WHEREAS, the implementation of District policy over a period of many years as resulted in the accumulation of funds to be utilized for a variety of District activities and to protect the District's customers and taxpayers from the financial impacts of catastrophic events and from fluctuations in District expenses; and

WHEREAS, this Board wishes to provide for the creation of certain unrestricted reserve accounts, and to set forth in writing the District's policy regarding the accumulation of reserves, the purposes for which they may be expended, and the levels which the District should strive to maintain;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Crestline Sanitation District hereby provides for the deposit of revenue into certain restricted funds, the creation of certain unrestricted reserve accounts, and the accumulation and administration of reserves in each, as follows:

1. Unrestricted Reserves.
 - a) Reserve for Operations. A "Reserve for Operations" is hereby created for the District's general account, to which the Board may appropriate unrestricted District revenues. Each such Reserve for Operations may be utilized to pay the cost of operating the District's general system, including unanticipated costs of operation. The District shall endeavor to maintain in each Reserve, for Operations an amount sufficient to pay for three months of normal operation but not exceed six months of normal operation. However, funds appropriated to any Reserve for Operations may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to a Reserve for Operations may be invested in the same manner as other District surplus funds, and the earnings thereon shall be credited to the District's Governmental General Fund.
 - b) Reserve for Capital Projects Required for State Regulatory Compliance. A "Reserve for Capital Projects Required for State Regulatory Compliance" is hereby created for the District's general account to which the Board may appropriate unrestricted District revenues. Each Reserve for Capital Projects Required for State Regulatory Compliance may be utilized to replace the District's physical plant, as needed. The District shall endeavor to maintain in each Reserve for Capital Project Required for State Regulatory Compliance an amount approximately equal to the capital budget for the current fiscal year plus the amount allocated by the Board for the District's master plan projects, less the amounts funded with debt financing and by the State for the Cleghorn Wastewater Treatment Plant. However, the funds appropriated to each Reserve for Capital Projects Required for State Regulatory Compliance may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to a Reserve for Capital Projects Required for State Regulatory Compliance may be invested in the same manner as other District surplus funds, and the earnings thereon shall be credited to the District's General Fund.

c) Reserve for Catastrophe Response. A "Reserve for Catastrophe Response" is hereby created for the District's general account to which the Board may appropriate unrestricted District revenues. Each Reserve for Catastrophe Response may be utilized to procure such equipment and supplies, perform such repairs, employ such personnel, and take such other measures as may be necessary or appropriate in the event of a catastrophe or calamity requiring District response. The District shall endeavor to maintain in each Reserve for Catastrophe Response an amount approximately equal to twenty five percent (25%) of the net book value of the District's physical plant for the District's general system and as reflected in the annual audit of the District presented to the Board each year. However, the funds appropriated to each Reserve for Catastrophe Response may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to a Reserve for Catastrophe Response may be invested in the same manner as other District surplus funds, and the earnings thereon shall be credited to the District's General Fund.

2. Additional Accounts. In addition to the unrestricted accounts identified above, the Board may approve the creation of such additional accounts, whether temporary or permanent (such as Capital Improvement Projects and system update/replacement projects identified in the Budget and/or associated with the District's Long Term Strategic Plan), as the Board deems necessary or appropriate, by amendment to this resolution or by simple motion. In such event, the Board will identify the purposes, for which such additional accounts are created, provide guidance as to the amount which the District should endeavor to maintain in each such account, and establish the limits and restrictions pertaining thereto.

3. Annual Reports. Each year the District's General Manager shall provide the Board with a report indicating the beginning and ending balance for each of the reserve funds or accounts created pursuant to this resolution and the purposes for which expenditures have been made therefrom and shall make recommendations to replenish or augment fund or account balances as appropriate.

4. Effective Date. This Resolution shall supersede Resolution No. 070 adopted on August 13, 2020, and shall become effective immediately.

ADOPTED this 12th day of July, 2021.

AYES:
NOES:
ABSENT:
ASTAIN:

President, Board of Directors

ATTEST: _____

CRESTLINE SANITATION DISTRICT
Calculation of Reserves in Accordance with the Reserve Policy
2021/2022

BOARD DESIGNATED RESERVES				
1. UNRESTRICTED RESERVES				
a) RESERVE FOR OPERATIONS				
Contingency and Operations - Six Months Operations				
2021/22 Operating Budget Total	\$ 4,520,236			
Less:				
Depreciation	<u>574,394</u>			
	3,945,842			
Six Months	x <u>6/12</u>			
Contingency and Operating Reserve		1,972,921		
TOTAL RESERVE FOR OPERATIONS			\$ 1,972,921	
b) RESERVE FOR REPLACEMENT				
Property, Plant, and Equipment Replacement Reserve				
Accumulated Depreciation 6/30/21	\$ 23,127,573			
Reserve %	x <u>25%</u>		<u>5,781,893</u>	
TOTAL RESERVE FOR REPLACEMENT				5,781,893
c) RESERVE FOR CATASTROPHE RESPONSE				
Cost (Excluding Land)	\$ 32,622,715			
Less: Accumulated Depreciation	<u>23,127,573</u>			
	9,495,142			
Reserve %	x <u>25%</u>		<u>2,373,786</u>	
TOTAL RESERVE FOR CATASTROPHE RESPONSE				2,373,786
2. ADDITIONAL RESERVES IDENTIFIED BY THE BOARD				
Capital Budget Current Year	2,833,400			
Less amount funded with debt financing	<u>(1,789,400)</u>			
TOTAL RESERVE FOR CAPITAL PROJECTS				<u>1,044,000</u>
TOTAL RESERVES TARGET PER RESERVE POLICY				<u>\$ 11,172,600</u>

CALCULATION OF AVAILABLE RESERVES:

Total net position as of 6/30/20	\$ 18,197,778
Estimated change in net position for FY2021	<u>739,130</u>
Investments in Utility Plant	
Total capital assets as of 3/31/21 (Including CIP)	\$ 9,663,585
Estimated additional CIP for Apr-Jun '21	<u>407,472</u>
Inventory	<u>14,449</u>
	<u>(10,085,506)</u>
Estimated unrestricted net position available as of 6/30/21	<u>\$ 8,851,402</u>
Estimated unrestricted net position available as of 6/30/21	\$ 8,851,402
Less: Total Reserves Target Per Policy	<u>11,172,600</u>
Estimated unrestricted net position over/(under) target reserves	\$ (2,321,198)
Funded percentage of total reserves (estimated as of 6/30/21)	79%

RESOLUTION NO. 070

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE CRESTLINE SANITATION DISTRICT
ESTABLISHING A POLICY FOR DISTRICT RESERVES
FOR FISCAL YEAR 2020-21**

WHEREAS, this Board is charged with responsibility for providing sewer collection and treatment service to and for customers located within the District's boundaries; for the construction, operation, maintenance, repair and replacement of facilities to treat waste water from District customers, and accumulation of revenues necessary to accomplish these purposes; and

WHEREAS, the implementation of District policy over a period of many years as resulted in the accumulation of funds to be utilized for a variety of District activities and to protect the District's customers and taxpayers from the financial impacts of catastrophic events and from fluctuations in District expenses; and

WHEREAS, this Board wishes to provide for the creation of certain unrestricted reserve accounts, and to set forth in writing the District's policy regarding the accumulation of reserves, the purposes for which they may be expended, and the levels which the District should strive to maintain;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the Crestline Sanitation District hereby provides for the deposit of revenue into certain restricted funds, the creation of certain unrestricted reserve accounts, and the accumulation and administration of reserves in each, as follows:

1. Unrestricted Reserves.
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 - b) Reserve for Regulatory Compliance A "Reserve for Regulatory Compliance" is hereby created for the District's general account to which the Board may appropriate unrestricted District revenues. Each Reserve for Regulatory Compliance may be utilized to replace the District's physical plant, as needed. The District shall endeavor to maintain in each Reserve for Regulatory Compliance an amount approximately equal to twenty-five percent (25%) of the total accumulated amount of depreciation of the District's physical plant for the District's general system and as reflected in the annual audit of the District Presented to the Board each year. However, the funds appropriated to each Reserve for Regulatory Compliance may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to a Reserve for Regulatory Compliance may be invested in the same manner as other District surplus funds, and the earnings thereon shall be credited to the District's General Fund.

c) Reserve for Catastrophe Response. A "Reserve for Catastrophe Response" is hereby created for the District's general account to which the Board may appropriate unrestricted District revenues. Each Reserve for Catastrophe Response may be utilized to procure such equipment and supplies, perform such repairs, employ such personnel, and take such other

measures as may be necessary or appropriate in the event of a catastrophe or calamity requiring District response. The District shall endeavor to maintain in each Reserve for Catastrophe Response an amount approximately equal to twenty five percent (25%) of the original cost of the District's physical plant for the District's general system and as reflected in the annual audit of the District presented to the Board each year. However, the funds appropriated to each Reserve for Catastrophe Response may be accessed at any time for any other District purpose, upon approval by the Board. Funds appropriated to a Reserve for Catastrophe Response may be invested in the same manner as other District surplus funds, and the earnings thereon shall be credited to the District's General Fund.

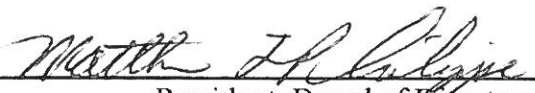
2. **Additional Accounts.** In addition to the unrestricted accounts identified above, the Board may approve the creation of such additional accounts, whether temporary or permanent (such as Capital Improvement Projects and system update/replacement projects identified in the Budget and/or associated with the District's Long Term Strategic Plan), as the Board deems necessary or appropriate, by amendment to this resolution or by simple motion. In such event, the Board will identify the purposes, for which such additional accounts are created, provide guidance as to the amount which the District should endeavor to maintain in each such account, and establish the limits and restrictions pertaining thereto.

3. **Annual Reports.** Each year the District's General Manager shall provide the Board with a report indicating the beginning and ending balance for each of the reserve funds or accounts created pursuant to this resolution and the purposes for which expenditures have been made therefrom and shall make recommendations to replenish or augment fund or account balances as appropriate.

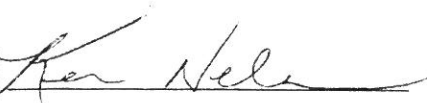
4. **Effective Date.** This Resolution shall supersede Resolution No. 022 adopted on June 14, 2012, and shall become effective immediately.

ADOPTED this 13th day of August, 2020.

AYES: Matthew Philippe, Ken Nelson, Sherri Fairbanks, Niki Wiesner
NOES: None
ABSENT: Penny Shobnell
ASTAIN: None



President, Board of Directors

ATTEST: 

CRESTLINE SANITATION DISTRICT
Calculation of Reserves in Accordance with the Updated Reserve Policy
2020/2021

UNRESTRICTED RESERVES – BOARD DESIGNATED RESERVES

1. RESERVE FOR OPERATIONS

Contingency and Operations - Six Months Operations

2020/21 Operating Budget Total	\$	4,634,018	
Less Depreciation		(582,321)	
		4,051,697	
 Reserve at Six Months	 x	 6/12	 2,025,800

TOTAL RESERVE FOR OPERATIONS **\$ 2,025,800**

2. RESERVE FOR CAPITAL PROJECTS REQUIRED FOR STATE REGULATORY COMPLIANCE

Capital Budget Current Year		629,500	
Less amount funded with debt financing		-	
		629,500	
Master Plan Projects:			
HC - Huston Creek		14,015,000	
SC - Seeley Creek		3,684,000	
CS - Flow Metering		550,000	
LS - LG Wet Well		609,000	
CL - Cleghorn WWTP		3,340,000	
		22,198,000	
Less amount funded with debt financing*		(9,000,000)	
Less State funding for Cleghorn WWTP**		(3,340,000)	
		9,858,000	

TOTAL RESERVE FOR CAPITAL PROJECTS **10,487,500**

3. RESERVE FOR CATASTROPHE RESPONSE

Infrastructure Cost (Excluding Land)	\$	31,657,391	
Less Accumulated Depreciation		(22,559,647)	
		9,097,744	
 Reserve at 25% of net book value	 x	 25%	 2,274,400

TOTAL RESERVE FOR CATASTROPHE RESPONSE **2,274,400**

TOTAL RESERVES TARGET **\$ 14,787,700**

CALCULATION OF AVAILABLE RESERVES

Total net position as of 6/30/19		\$ 17,543,695
Estimated change in net position for FY2020		357,931
Investments in Utility Plant		
Total capital assets as of 3/31/20 (Including CIP)	\$	9,523,453
Estimated additional CIP for Apr-Jun '20		220,000
Inventory		14,449
		(9,757,902)
Estimated unrestricted net position available as of 6/30/20		\$ 8,143,724
Estimated unrestricted net position available as of 6/30/20		\$ 8,143,724
Less: Total Reserves Target Per Policy		14,787,700
Estimated unrestricted net position over/(under) target reserves		\$ (6,643,976)
Funded percentage of total reserves (estimated as of 6/30/20)		55%

* Debt financing amount is estimated and subject to approval. Actual final amount approved may be different.

** The District operates the Cleghorn WWTP on behalf of the State of California under a reimbursement agreement.