

RANCHO MURIETA COMMUNITY SERVICES DISTRICT

Category:	Financial	Policy # 2012-07
Title:	District Operating Fund and Reserve Fund Policy	

PURPOSE

This statement is intended to provide policy and direction concerning the District's comprehensive reserve policy.

BASIC POLICY AND OBJECTIVES

The Rancho Murieta Community Services District reserve policy is a financial policy guided by sound accounting principles of public fund management. The policy establishes several reserve funds to minimize adverse annual budgetary impacts from anticipated and unanticipated District expenses.

The adequacy of the target reserve year-end balance ranges and/or annual contributions will be reviewed annually during the budgeting and rate setting process and may be revised accordingly as necessary. The following District reserve fund categories are established:

1. Capital Replacement Fee Reserve (Water, Sewer, Drainage and Security)

- 1.1. Purpose: Fees are collected for the future replacement of existing facilities and major equipment.
- 1.2. Target Balance: The target balance continually fluctuates with the addition and replacement of new facilities and equipment. As new facilities and equipment are built, acquired or purchased, the target balance will increase in order to provide for the ultimate replacement of these facilities at the end of their life-cycle. As such, the current target reserve balance is the amount that should be funded at the end of each fiscal year according to the replacement reserve study, which is reviewed annually.
- 1.3. Methodology/Rational: The District records depreciation using the straight-line method over the estimated useful lives of facilities and equipment. The fee is collected to replace District facilities and equipment as they reach the end of their useful life and also to handle unanticipated repairs during the life-cycle.
- 1.4. Use of Funds: The funds will be used to replace facilities and equipment as necessary to continue District water, sewer, drainage and security services.
- 1.5. Funding: Annual contributions from user fees are currently based upon annual projected requirements in conjunction with the overall budget and replacement reserve study. Interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments. In addition, the Board of Directors

may approve the designation of available fund balance as Capital Replacement Reserves provided, however, that sufficient Operating Fund balances are preserved

2. Capital Improvement Fee Reserve

- 2.1. Purpose: To provide funds for the orderly and timely expansion of the District facilities to meet future demand and to maintain and/or improve the District's existing level of service.
- 2.2. Target Balance: AB1600 does not designate a target reserve balance. A Government Code 66000 Compliance Report identifies the proposed capital projects necessary to maintain and/or improve services and the amount needed to fund those capital projects. In accordance with Government Code 66000, the balance shall not exceed the amount specified by that law.
- 2.3. Methodology/Rational: Virtually all development that occurs within the District requires the use of District facilities, plant and equipment for public services. This fee is established to insure the adequacy and reliability of such facilities, plant and equipment as development of undeveloped land occurs.
- 2.4. Use of Funds: The funds generated by the fee will be used to acquire and/or construct various capital facilities, plant and equipment for the provision of water, wastewater, drainage, security and administrative services.
- 2.5. Funding: Annual contributions from developer fees will depend upon new construction within the District. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

3. Water Augmentation Fee Reserve

- 3.1. Purpose: To provide funds for the orderly and timely augmentation of the District's water supply system to meet future demands of the undeveloped lands within the District's existing boundaries during an equivalent 1976-77 drought event.
- 3.2. Target Balance: This reserve fund is based on a project comprised of a combination of on-site and off-site well systems and a raw water irrigation system which is identified in a Government Code 66000 Compliance Report. In 1997 the estimated costs of this project was \$11,713,000 and is escalated each year by the U.S. Consumer Price Index (CPI).
- 3.3. Methodology/Rational: Virtually all development that occurs within the District requires a potable water supply, as well as a non-potable supply for fire suppression. The current water supply facilities of the District are adequate to serve existing development, but additional water supply facilities are required to serve future development within the District. Specifically, this fee applies on an equitable basis only to those future developments that require water service, and the funds generated from this fee will be used to develop water supply facilities that will be capable of meeting the water supply needs of said future development. This fee is established to insure the adequacy and reliability of the District's water supply as development of undeveloped lands occurs.

- 3.4. Use of Funds: The funds generated by the fee will be used to develop a Water Supply Augmentation Project which is currently anticipated to consist of a system of water wells, construction of transmission facilities, construction of irrigation facilities and the performance of various studies and other miscellaneous management and administrative functions.
- 3.5. Funding: Annual contributions from developer fees will depend upon new construction within the District. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

4. Capital Improvement Connection Fee Reserve (Water and Sewer)

- 4.1. Purpose: Fees previously collected as a primary source of funds for the development of additional water and wastewater capacity and is set at a level which will defray the costs of providing additional: treatment and/or reclamation facilities, major trunk and transmission pipelines and facilities for pumping when such facilities are needed.
- 4.2. Target Balance: The target balance will no longer increase since fees are not collected. Hence, there is no target balance.
- 4.3. Methodology/Rational: In the past, connection fees generated from new development were segregated in this reserve. Contributions are no longer made to this reserve.
- 4.4. Use of Funds: The funds will be used to acquire and enhance system water and wastewater capacity and delivery.
- 4.5. Funding: This fee is no longer collected. However, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

5. Rate Stabilization Fund Reserve (Water, Sewer and Security)

- 5.1. Purpose: To offset revenue shortages due to economic hardships and/or unforeseen major expenses.
- 5.2. Target Balance: The minimum and maximum balances will be periodically reviewed by the Board and are to be maintained based upon the level of next year's revenue. The minimum level is no less than the percentage increase of the expenditures in each fund. The maximum limit will be no greater than 50 percent of next year's fund revenue.
- 5.3. Methodology/Rational: An economic hardship or unforeseen event could cause a loss of revenue for the District. If such an event occurs, the District could use these funds to stabilize revenues while adjusting rates as necessary to compensate for the fluctuation.
- 5.4. Use of Funds: These funds will be used to supplement differences in revenue projections resulting from economic hardships and unforeseen events.
- 5.5. Funding: Additional contributions will not be required unless future events cause the reserve to fall below the target balance. Additionally, interest earnings will be

accrued on and added to fund balance, using the District's earnings rate on investments.

6. Operating Fund (Water, Sewer, Drainage and Security)

- 6.1. Purpose: To ensure cash resources are available to fund daily administration, operations and maintenance of providing water, wastewater, security and drainage services.
- 6.2. Target Balance: A minimum of six months of cash to fund District expenditures.
- 6.3. Methodology/Rational: The District is required to have sufficient cash flow to meet the next six months of budgeted District expenditures (Government Code Section 53646(b)(3)). The next six months of projected cash revenues can be included as a source of cash flow to satisfy this requirement. Revenues in excess of reserve contributions and expenditures resulting from expenditure savings or timing differences are also reflected in this fund.
- 6.4. Use of Funds: These funds will be used to pay for expenditures according to budget and expenditure authority.
- 6.5. Funding: Annual contributions will vary, depending upon other reserve requirements and current year expenditure requirements. Additionally, interest earnings will be accrued on and added to fund balance, using the District's earnings rate on investments.

Approved by Rancho Murieta Community Services District Board of Directors	Adopted July 18, 2012
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