



NOTICE OF BUDGET & FINANCE COMMITTEE MEETING

Responsible for the review of District finances including: rates, fees, charges and other sources of revenue; budget and reserves; audit; investments; insurance; and other financial matters.

NOTICE IS HEREBY GIVEN that the San Lorenzo Valley Water District has called a meeting of the Budget & Finance Committee to be held on Tuesday, **June 4, 2019 at 9:00 a.m.** at the Operations Building, 13057 Highway 9, Boulder Creek, California.

AGENDA

1. Convene Meeting/Roll Call
2. Oral Communications
This portion of the agenda is reserved for Oral Communications by the public for items which are not on the Agenda. Please understand that California law (The Brown Act) limits what the Board can do regarding issues raised during Oral Communication. No action or discussion may occur on issues outside of those already listed on today's agenda. Any person may address the Committee at this time, on any subject that lies within the jurisdiction of the District. Normally, presentations must not exceed five (5) minutes in length, and individuals may only speak once during Oral Communications.
Any Director may request that the matter be placed on a future agenda or staff may be directed to provide a brief response.
3. Old Business:
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
 - A. FY2019/20 BUDGET REVIEW
Discussion by the Committee regarding FY 2019/20 Budget (support documents to be provided at the meeting).
 - B. RESERVE FUND POLICY
Review Reserve Fund Policy and conceptual structure of reserve funds (see attached).
 - C. UPCOMING LOANS - UPDATE
Discussion by the Committee regarding upcoming loans (support documents to be provided at the meeting).
4. New Business:
Members of the public will be given the opportunity to address each scheduled item prior to Committee action. The Chairperson of the Committee may establish a time limit for members of the public to address the Committee on agenda items.
 - A. UNFUNDED LIABILITIES

Discussion by the Committee regarding some of the unfunded liabilities and how to incorporate them into the strategic plan and reserve fund policy (support documents to be provided at the meeting).

B. PIPELINE REPLACEMENT WORKFORCE

Discussion by the Committee regarding unfunded pipe replacement maintenance.

5. Informational Material: None.

6. Adjournment

In compliance with the requirements of Title II of the American Disabilities Act of 1990, the San Lorenzo Valley Water District requires that any person in need of any type of special equipment, assistance or accommodation(s) in order to communicate at the District's Public Meeting can contact the District Office at (831) 338-2153 a minimum of 72 hours prior to the scheduled meeting.

Agenda documents, including materials related to an item on this agenda submitted to the Committee after distribution of the agenda packet, are available for public inspection and may be reviewed at the office of the District Secretary, 13060 Highway 9, Boulder Creek, CA 95006 during normal business hours. Such documents may also be available on the District website at www.slvwd.com subject to staff's ability to post the documents before the meeting.

Certification of Posting

I hereby certify that on May 31, 2019, I posted a copy of the foregoing agenda in the outside display case at the District Office, 13060 Highway 9, Boulder Creek, California, said time being at least 72 hours in advance of the regular meeting of the Budget & Finance Committee of the San Lorenzo Valley Water District in compliance with California Government Code Section 54956.

Executed at Boulder Creek, California, on May 31, 2019.

Holly B. Hossack, District Secretary
San Lorenzo Valley Water District

considerations will be the next factor in determining maturity terms, with the expectations that longer maturity periods will generally yield greater returns on investments. Investments may be sold before maturity if required for cash flow or appreciation purposes.

The maximum maturity term of any investment shall not exceed five years.

- (vii) **REPORTING:** The District Manager shall provide to the Board of Directors monthly investment reports that provide a clear picture of the status of the current investment portfolio, as required by California Government Code Section 53607 and in compliance with the recommendations provided in California Government Code 53646.
- (viii) **ETHICS AND CONFLICTS OF INTEREST:** Officers and employees involved in the District's investment process shall not conduct personal business activity that could conflict with proper execution of the investment program or which could impair their ability to make impartial investment decisions.
- (ix) **INVESTMENTS POLICIES ADOPTION:** In accordance with California Government Code Section 53607 the District's investments policies shall be adopted annually by resolution of the Board of Directors at a public meeting.

Section 6.02 Reserves

(d) Purpose of Reserve Policy

Adequate designations of reserve funds set aside for various legitimate purposes are critical to the successful and stable, short and long-term operation of the San Lorenzo Valley Water District (the "District").

Adequate reserves for the District operations ensure that customers experience both stable rates for service and the security that the District can respond to emergencies, especially regarding water and wastewater quality issues. Adequate reserves ensure that the District will at all times have sufficient funding available to meet its operating, capital and debt service cost obligations, together with future debt or capital obligations, as well as any unfunded mandates, including costly regulatory requirements.

The District manages its working capital in a manner that allows the District to fund costs consistent with its annually updated capital improvement program and budgeted financial plan, and that avoids significant rate fluctuations due to changes in cash flow requirements. The ability of the District to maintain reserve funds is a critical factor in providing reliable service, mitigating rate increases, and ensuring overall financial strength.

Annually, during the budget adoption process, the District Board should review and approve the appropriate levels and uses for reserve funds based upon the needs of the District.

This Reserve Fund Policy (the “Policy”) was developed to clearly identify specific designated reserves and reserve funds. It is the intent of this Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District’s mission statement, the uniqueness of the District, and the philosophy of the District’s Board.

(e) Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 (Statement 54), Fund Balance Reporting and Governmental Fund Type Definitions in February 2009. Statement 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned.

- (i) Nonspendable – consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.
- (ii) Restricted: Amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation.
- (iii) Committed: Amounts that are subject to a purpose constraint imposed by a formal action of the government’s highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.
- (iv) Assigned: Amounts that are subject to a purpose constraint that represents an intended use established by the government’s highest level of decision-making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the general fund, and in funds other than the general fund, assigned fund balance represents the residual amount of fund balance.
- (v) Unassigned: Residual classification for the government’s general fund, and could report a surplus or deficit. In funds other than the general fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

(f) Designated Reserve Funds

- (i) Restricted - Debt Service Reserve Fund

The District requires that this fund be maintained at a level sufficient to fund any current debt covenant requirements. Whether funds are held by

the debt trustee during the term of the debts or if it is held internally. These are to be used in the event that the District is unable to meet its required semi-annual debt service obligation. Debt covenant requirements will be updated on an as needed basis for any new or retired obligations.

(ii) Committed - Capital Reserve Fund

This fund pays for the replacement of existing facilities and equipment as it reaches the end of its useful life or for major repairs that extend the useful life of facilities. This fund will also cover any emergency repairs to insure a timely response by the District to natural disasters and/or other emergencies. This insures timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

Expenditures from this reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Capital Reserve Fund.

The fund level for the Capital Reserve Fund is a target level equal to \$2,000,000, unless otherwise directed by the Board at a public meeting. If current funds are below the target level of \$2,000,000, the Board can designate a plan to replenish the fund.

(iii) Committed - Operational Reserve Fund

This fund is established to cover unexpected cash flow shortages, expense or losses. These might be caused by delayed payments, unexpected building repairs, or economic conditions. Reserves should not be used to make up for income shortfalls, unless the District has a plan to replace the income or reduce expenses in the near-term future, which would require Board designation. In short, reserves should be used to solve timing problems, not deficit problems.

A commonly used reserve goal is 3-6 months' expenses. The fund level for the Operational Reserve Fund is a target level equal to \$1,500,000, unless otherwise directed by the Board at a public meeting. If current funds are below the target level of \$1,500,000, the Board can designate a plan to replenish the fund.

- Assigned – none at this time
- Nonspendable – none at this time
- Unassigned – none at this time

(g) Annual Review

The District Manager shall perform a review and analysis of each designated reserve funds for presentation to the Board at a public meeting upon the occurrence of the following:

- Upon consideration by the Board of the annual budget.
- Upon any significant change to and/or expenditure(s) from a designated reserve fund.
- Upon determination that a fund balance is less than the established target level, without a near term replenishment plan.
- As part of the annual review, a summary of the funds and fund level(s) shall be listed out, as well as the anticipated levels for that fiscal year.

RESERVE FUND DRAFT PROPOSALS

CONCEPTUAL STRUCTURE							
#	RESERVE FUND DESCRIPTION	RESERVE FUND TYPE	TARGET GUIDELINES	MAXIMUM GUIDELINES	TRIGGERS FOR USE OF FUNDS	FUNDING PRIORITY	FUNDING TIMELINE
1	OPERATING RESERVES	COMMITTED	3 MONTHS OF CURRENT BUDGET OPERATING EXPENSES	6 MONTHS OF CURRENT BUDGET OPERATING EXPENSES	TO COVER TEMPORARY CASH FLOW CONSTRAINTS OR EXTRAORDINARY DECREASES IN REVENUES OR UNEXPECTED INCREASES IN EXPENSES		
2	CAPITAL PROJECT RESERVE	COMMITTED	100% OF THE CURRENT BUDGET PAY-GO CAPITAL PROJECTS, PLUS 50% FOLLOWING YEAR PROJECTED	N/A	USED FOR RECOMMENDED CONSTRUCTION, REPLACEMENT, UPGRADES AND/OR REPAIRS		
3	EMERGENCY RESERVE	ASSIGNED	2% OF NET CAPITAL ASSETS OF THE DISTRICT'S WATER SYSTEM PER LAST AUDIT	3% OF NET CAPITAL ASSETS OF THE DISTRICT'S WATER SYSTEM PER LAST AUDIT	USED FOR AN EMERGENCY SITUATION DECLARED BY THE DISTRICT MANAGER		
4	UNFUNDED LIABILITIES	ASSIGNED	?	?	USED TO HELP FUND UNFUNDED LIABILITIES		
5	RATE STABILIZATION	ASSIGNED	10% OF CURRENT BUDGET CONSUMPTION BASED REVENUE	N/A	TO COVER EXTRAORDINARY DECREASES IN CONSUMPTION BASED REVENUE		
6	COMPENSATED ABSENCES RESERVE	COMMITTED	25% OF THE CALCULATED ANNUAL LIABILITY PER LAST AUDIT	50% OF THE CALCULATED ANNUAL LIABILITY PER LAST AUDIT	UPON BOARD AUTHORIZATION, THIS FUND MAY BE ROUTINELY UTILIZED BY STAFF TO COVER LARGE, UNBUDGETED CASH-OUT PAYMENTS		
7	DEBT RESERVE	RESTRICTED	N/A	N/A	SPECIFIED ON DEBT AGREEMENTS		
8	CONNECTION FEE RESERVE	RESTRICTED	N/A	N/A	THE BALANCE WILL FLUCTUATE DEPENDING ON THE AMOUNT COLLECTED AND THE AMOUNT EXPENDED FOR CAPITAL IMPROVEMENT PROJECTS		
9	ASSESSMENT DISTRICTS	RESTRICTED	N/A	N/A	THE BALANCE WILL FLUCTUATE DEPENDING ON THE AMOUNT COLLECTED AND THE AMOUNT EXPENDED FOR CAPITAL IMPROVEMENT PROJECTS		

EXAMPLES OF ESTIMATED RESERVE FUNDS, BASED ON ABOVE

OPERATING RESERVES	\$	2,000,000	\$	4,000,000
CAPITAL PROJECT RESERVE	\$	3,168,000		
EMERGENCY RESERVE	\$	690,000	\$	1,035,000
UNFUNDED LIABILITIES				
RATE STABILIZATION	\$	740,000		
DEBT RESERVE	\$	291,000		
COMPENSATED ABSENCES RESERVE	\$	128,750	\$	257,500
CONNECTION FEE RESERVE	\$	-		
ASSESSMENT DISTRICTS	\$	59,000		
	\$	7,076,750	\$	9,550,500

* Still need to factor in other reserved liabilities such as customer deposits, holding accounts