

**RESOLUTION NO. 1450**

**RESOLUTION OF THE BOARD OF DIRECTORS OF THE  
VALLECITOS WATER DISTRICT APPROVING  
THE STATEMENT OF RESERVE POLICY AND  
RESCINDING RESOLUTION 1433**

WHEREAS, the Board of Directors of the Vallecitos Water District (District) recognizes a need to reserve funds for unanticipated, unforeseeable or planned working capital deficiencies, and

WHEREAS, the Board of Directors recognizes a need to reserve funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure, and

WHEREAS, the Board of Directors recognizes that the District's ability to issue bonds for working capital and the repair or replacement of water and wastewater system equipment and infrastructure is limited, and

WHEREAS, the Board of Directors desires to avoid the cost of debt issuance and ongoing interest expense, and

WHEREAS, the Board of Directors feels that it is more prudent to collect funds for unanticipated, unforeseeable, and planned repair or replacement of water and wastewater system equipment and infrastructure from current customers benefiting from the District's services and use of the District's systems, and

WHEREAS, the Statement of Reserve Policy of the Vallecitos Water District is as follows:

Section 1: – Operating Reserves

The District shall maintain two operating reserves in cash equivalents and short-term investments: One for the District's water operations, and the other for the District's wastewater operations.

The reserve balances shall be limited to one-hundred eighty days of budgeted operating expenses, calculated by dividing total budgeted operating expenses less water purchases by three hundred and sixty-five and multiplying by one-hundred eighty. The reserve balance limits shall be determined during the budget process, before the beginning of the respective fiscal year.

Anticipated operating reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, next from replacement reserves, if available, and next by budgeted surplus which may result from increased rates.

Amounts anticipated to exceed operating reserve limits shall be transferred to OPEB and replacement reserve funds to the extent of those fund limits. Amounts

accumulated in excess of OPEB, operating, and replacement reserve limits shall be transferred to a rate stabilization fund.

### Section 2: – OPEB Reserve

The District shall maintain a reserve level necessary to eliminate the required recorded obligation to fund Other Post-Employment Benefits, in accordance with Governmental Accounting Standards Board pronouncements, in cash equivalents and investments. Anticipated OPEB reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, next from replacement reserves, if available, and next by budgeted surplus which may result from increased rates.

### Section 3: – Replacement Reserves

The District shall maintain two replacement reserves in cash equivalents and investments: One for the District's water system, and the other for the District's wastewater system.

The balance for the Water Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next ten years of system replacement costs. The balance for the Wastewater Replacement Reserve shall be greater than the sum of the next three years of projected system replacement costs, but less than the next eight years of system replacement costs.

Replacement costs shall be projected using the following assumptions:

- Replacement costs equal net additions to infrastructure and system assets increased according to the published Construction Cost Indices from the year of acquisition to the most current monthly index.
- Water System replacement occurs starting on year forty through year seventy of the life of the additions at an amount equal to 3.226% of the replacement cost for each year.
- Wastewater System replacement occurs starting on year thirty-five through year fifty of the life of the additions at an amount equal to 6.25% of the replacement cost for each.

Costs of additions shall be recorded from footnotes of audited financial statements.

Replacement reserves shall equal all funds available for debt service, asset acquisition and residual for draws for unusual occurrences such as drought management, excluding funds restricted under the Mitigation Fee Act, and less OPEB and operating reserves.

Anticipated replacement reserve deficiencies will be funded first by transfers from rate stabilization funds, if available, and next by budgeted surplus which may result from increased rates.

Amounts anticipated to exceed replacement reserve limits shall be transferred to operating and OPEB reserve funds to the extent of fund limits. Amounts accumulated in

excess of the operating, OPEB, and replacement reserve limits shall be transferred to a rate stabilization fund.

Section 4: - Rate Stabilization Funds

The District shall maintain two rate stabilization funds in cash equivalents and short-term investments: One for the District's water operations, and the other for the District's wastewater operations. Amounts accumulated in replacement reserves in excess of replacement reserve limits will be transferred to the respective rate stabilization fund. Rate stabilization funds will be used to restore reserves to their limits in subsequent years while holding rates for commodity and recovery of fixed costs steady. If, after restoring reserve funds, the rate stabilization fund balance continues to increase, rates will be lowered to the extent deemed necessary by management, and subject to Board approval and public hearing, to curtail increasing trends in the rate stabilization funds.


Water replacement reserves will be maintained at the limits established and water rate stabilization funds will increase in anticipation of the wholesale water cost increases from contracted desalinated water deliveries. After desalinated water deliveries commence, the District will use water rate stabilization funds to mitigate pricing impacts to its customers from the wholesale cost of desalinated water.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Vallecitos Water District as follows:


The Statement of Reserve Policy is hereby approved and the District Treasurer is directed to follow this Statement of Reserve Policy in managing available funds and investments of the District.

PASSED, APPROVED AND ADOPTED by the Board of Directors of the Vallecitos Water District at a special meeting held on the 10<sup>th</sup> day of June, 2014, by the following roll call vote:

- AYES: EVANS, HERNANDEZ, POLTL, SANNELLA, MARTIN
- NOES:
- ABSTAIN:
- ABSENT:

  
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 Hal J. Martin, President  
 Board of Directors  
 Vallecitos Water District

ATTEST:

  
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 Dennis O. Lamb, Secretary  
 Board of Directors  
 Vallecitos Water District