

RESOLUTION NO. 2023-2314

A RESOLUTION APPROVING REVISED BOARD POLICY F-50 RESERVES

LAS GALLINAS VALLEY SANITARY DISTRICT

WHEREAS, the Board of Directors ("Board") has determined that a comprehensive list of Policies and Procedures for the Board is in the best interest of the District; and

WHEREAS, the Board has compiled a comprehensive list of Policies and Procedures to serve as the rules and regulations of the Board; and

WHEREAS, the Board did adopt such comprehensive list of Policies and Procedures on July 9, 2009; and

WHEREAS, such policies may need to be updated from time to time; and

WHEREAS, on June 15, 2023, the Board reviewed and suggested changes to Board Financial Policy F-50 Reserves.

NOW THEREFORE, the Sanitary Board of the Las Gallinas Valley Sanitary District approves the following revised policy section F-50 RESERVES in its entirety. The previously approved Board Policy F-50 is hereby revoked and declared null and void.

If any policy or portion of a policy contained within the Policies and Procedures is in conflict with rules, regulations, or legislation having authority over the Las Gallinas Valley Sanitary District, said rules, regulations or legislation shall prevail.

The Policies and Procedures shall remain in effect until amended by at least a majority vote of the Board of Directors.

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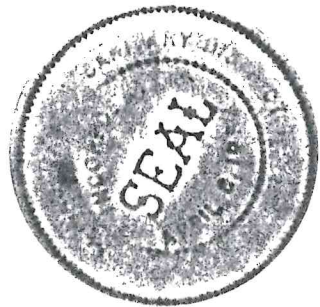
I hereby certify that the foregoing is a full, true, and correct copy of a resolution duly and regularly passed and adopted by the Sanitary Board of the Las Gallinas Valley Sanitary District, Marin County, California, at a meeting thereof held on the 6th day of July 2023, by the following vote of the members thereof:

AYES, and in favor thereof Members: Clark, Ford, Murray, Robards, Yezman.
NOES, Members: None.
ABSENT, Members: None.
ABSTAIN, Members: None.


Teresa Lerch, Board Secretary

APPROVED:

Megan Clark, Board President



F-50 RESERVES

Purpose

This policy establishes reserves, explains the purpose and reasons for the size of each reserve, and provides for the oversight of reserves.

The District requires reserves for operations and capital needs. Reserves provide financing safeguards for the District’s operations. Such funds are available for extraordinary expenses and to fund cash flow. In addition, reserve fund investments generate earnings to supplement other revenues.

The District has two types of reserve funds: Designated Reserves and Restricted Reserves. Board Designated Reserves are comprised of funds set aside for specific purposes as determined by the District Board of Directors, which include, but are not limited to, funding for capital facility construction, replacement and refurbishment, and establishing operating and rate stabilization. The Board has the authority to redirect the use of the Designated Reserves as the needs of the District change. Restricted Reserves are funds held to satisfy limitations set by external requirements and restraints of agreements, creditors, grantors, or law.

F-50-10 Designated Reserve Fund Policies

PURPOSE	OPERATING & RATE STABILIZATION RESERVE Fund unexpected expense increases or offset loss of Sewer Service Charge revenue. Replenish any reserves used over a 6-to-10-year period.	VEHICLE & EQUIPMENT RESERVE (VERF) Fund capital vehicle replacement based on VERF program. Replenish any reserves used to adequately fund program for 3 to 4 years.	EMERGENCY REPAIR RESERVE Fund emergency repairs. Replenish the reserve over a 2 to 3 year period.	CAPITAL RESERVE Provide capital for major capital projects including upgrades and expansions.	TOTAL COMBINED RESERVES
CURRENT STATUS					
Target Goal * (as of 6/30/23)	\$10,000,000	\$1,000,000	\$1,500,000	\$11,000,000.	\$23,500,000
Balance * (as of 06/30/23)	\$4,248,594	\$499,376	\$1,166,667	\$9,184,772	\$15,099,409
Percent Reached *	42%	50%	78%	83%	
Risks	The reserve is used to absorb unexpected cost increases and spread them over more than one year. Provide for this reserve by funding from property tax and ERAF funds.	Aging vehicle fleet without proper replacement funding risks operational interruptions and sewer overflow response delays.	Balance may be used to fund working capital needs. Fund would not be large enough to address a catastrophic event.	Without a reserve, projects are funded with current year revenue in excess of O&M needs; or the District has to rely on bond financing. At the time the reserve balance was established the District had operating and capital reserves of \$10M.	

* For the latest Target Goal, Balance, and Percentage Reached refer to the most recently adopted budget.

LONG-TERM GOALS					
Basis for Target Goal	7 months of operating and debt service cash flow based on most current budget; amount to be evaluated annually based on proposed budget. Reserve can be used to stabilize and avoid dramatic rate increases.	VERF program that determines useful vehicle life, varying from 5 to 10 years. Vehicle schedule used to develop target goal annually as part of budget process.	The cost to repair a major pump station or other infrastructure.	To provide capital for major capital projects that span two or more years. Accumulated depreciation to be reviewed and factored into setting target to have current ratepayer pay for the utilization of the District's assets.	
The district will build up the reserves based on: (a) the annual Construction CPI and (b) annual allocations of property tax and ERAF funds, as available.					
Considerations	Due to the timing of revenue receipts an increased margin would be more comfortable. A sudden increase in costs would have to be absorbed by operating reserves since the rate setting process occurs every 4 to 5 years.	May not be sufficient to fund three or more unexpected large vehicle or equipment purchases.	The reserve would be able to absorb one major repair or several smaller ones; a catastrophic event would require federal or state funding.	Should be sufficient for cash funding or regular projects but may not be enough for larger infrastructure replacements where debt may be incurred.	

F-50-15 Target Goal and Balances. The target goal varies by reserve fund and is developed annually as part of the budget process. Target goals may change as future budgets are adopted. For the latest balances refer to the most recently adopted budget.

F-50-20 Use of Designated Reserves. Upon recommendation of the General Manager, the Board shall identify the reserve to be utilized and authorize the General Manager to transfer reserve funds to the respective operational or capital funds as part of the budget process. Any use outside of the budget process shall be reflected in a revised budget or by resolution of the Board.

F-50-30 Restricted Reserves

Capacity Connection Fee Fund: Cash available from the collection of Capital Facilities Charge Connection Fees is kept in a separate fund. The fee is charged to developers based upon the estimated cost to construct additional capacity to serve the new development. These funds are restricted by law for expansion of sewer facilities that increase capacity within the District's service area. Funds are disbursed from the reserve as expenditures are incurred to increase system capacity to serve the new connections that contributed to the fund through fees collected. The fund balance accrues interest monthly. (*Government Code § 66013(c)*).

Captains Cove Fund: In 2003, the District entered into an agreement with the Captain's Cove Homeowner's Association to accept into the public sewer system the private sewer pumping and collections systems serving Captain's Cove, a 160-unit condominium project. A special sewer service charge surcharge is collected annually to fund the maintenance and operational costs of the disproportionate number of pump stations within the community. Funds are disbursed from the reserve to cover Operating and Maintenance costs which include, but are

not limited to, the following: the actual cost of labor (including general and administrative overhead plus tools and supplies normally applied), equipment and vehicle charges, consumables (such as electrical power), and spare parts and/or replaced components as necessary. Use of funding for capital outlay projects that serve Captain's Cove is identified as part of the budget process and must be approved by Board action.

Marin Lagoon Fund: In 1989, the District approved a sanitary sewerage system necessary to serve the community of Marin Lagoon. The cost of maintenance and operation of (9) nine sanitary sewerage lift stations are far in excess of those costs incurred by the District in providing such service to other parts of the District. A special sewer service charge surcharge is collected annually to fund the maintenance and operational costs of the disproportionate number of sanitary sewerage lift stations within the community. Funds are disbursed from the reserve to cover Operating and Maintenance costs which include, but are not limited to, the following: the actual cost of labor (including general and administrative overhead plus tools and supplies normally applied), equipment and vehicle charges, consumables (such as electrical power), and spare parts and/or replaced components as necessary. Use of funding for capital outlay projects that serve Marin Lagoon is identified as part of the budget process and must be approved by Board action.

Recycled Water Capital Repair and Replacement Fund: The 2017 agreement between Las Gallinas Valley Sanitary District ("Producer") and Marin Municipal Water District ("Distributor") for purchase and sale of recycled water includes a requirement that the Producer establish and maintain a separate fund for capital repair and replacement costs of the Recycled Water Treatment Facility ("RWTF") constructed as part of the Secondary Treatment Plant Upgrade Recycled Water Expansion Project. Both the Producer and Distributor pay into the fund by multiplying 10% of the total annual Operation and Maintenance Costs charged to the RWTF. The fund will pay for any items that cost more than five thousand dollars (\$5,000.00) and have a useful life of more than one year. Capital repair or replacement items or projects costing less than \$5,000 will be charged to the Producer's Operation and Maintenance budget. The Capital Repair and Replacement Fund shall not exceed \$500,000 in total, and such funds shall only be used for capital repair and replacement costs of the RWTF. The fund balance accrues interest monthly.

Resolution No. 2023-2314	Date Approved: July 6, 2023
President of the Board	Last Revised: May 19, 2022