

ORIGINAL

OJAI VALLEY SANITARY DISTRICT

RESOLUTION NO. 2018-12

RESOLUTION FOR THE ADOPTION OF THE  
OJAI VALLEY SANITARY DISTRICT  
RESERVE POLICY

**BE IT RESOLVED** that the Ojai Valley Sanitary District Board of Directors does hereby approve and adopt the attached Reserve Policy to become effective July 1, 2018;;

**PASSED AND ADOPTED** this 23<sup>rd</sup> day of July, 2018,  
upon the following vote:

**AYES:** Burg, Curtis, Stone, Baggerly, Kaiser, Ulrich

**NAYS:** None


**ABSENT:** Greene

**ABSTAIN:** None

  
\_\_\_\_\_  
Russ Baggerly, Chairman

**CERTIFICATION:**

I, William M. Stone, Secretary of the Board of Directors of the Ojai Valley Sanitary District, do certify that the above is a true and accurate copy of Resolution No. 2018-12 adopted by the Board of Directors on July 23, 2018.

  
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William M. Stone, Secretary

## Ojai Valley Sanitary District Reserve Policy

### Purpose

The purpose of the Ojai Valley Sanitary District (OVSD or District) Reserve Policy is to ensure that the District will, at all times, have sufficient funding available to: (1) meet its operating, capital, and debt service cost obligations; (2) fulfill its legal, regulatory and contractual obligations; and (3) mitigate risk and liability exposures.

### Policy

This Reserve Policy is intended to ensure the District has sufficient cash flow and reserves to meet current and future needs and provide transparency to its ratepayers by establishing and maintaining specific reserve funds. Reserve funds are needed to provide funding for planned and unplanned events. Planned events include, but are not limited to, accumulating balances to fund operating needs, capital improvement program needs and renewal & replacement of existing assets, debt service obligations, and providing funds to mitigate cash flow variances throughout unanticipated expenses, funding and paying for regulatory compliance projects and requirements. Reserve funds are also used to pay unforeseen and emergency events.

OVSD's Annual Approved Budget and related Board approvals establish the funding priorities and funding levels for OVSD expenditures and reserve funds. The District works, whenever possible, to "pay-as-you-go", meaning that borrowing and incurring interest charges are avoided whenever possible. As a result of the "pay-as-you-go" approach to funding the essential public service of operating and maintaining a sanitary sewage collection and treatment facility, District established reserve funds are funded to achieve anticipated District funding needs. Various studies and reports such as the Asset Management Plan and Rate Study are used to help guide and determine the right funding levels.

The established reserves defined herein provide guidance for long-term financial planning and maintaining the District's long-term financial health and operational stability. Adequate fund reserves: (1) provide working capital to fund operating needs; (2) provide working capital to fund capital improvement program needs; (3) provide a financial cushion for dealing with unanticipated financial needs and emergencies; and (4) are a component of achieving favorable credit ratings which can help to reduce the costs of issuing debt.

This policy designates specific reserve accounts that the Board of Directors has determined to be in the best interest of the District. It also establishes the authority of the Board and staff for the implementation and maintenance of the reserve accounts defined herein.

### **Reserve Fund Types**

The District maintains several reserve funds. All funds are designated, or restricted, for specific purposes and are independent of one another. There are two types of reserve funds: Restricted Reserves and Board Designated Reserves.

#### **Definitions:**

##### **A. Board Designated Reserves**

Board Designated Reserves are established and designed for specific purposes. These funds are to be utilized to fund such things as operations and maintenance, future capital facilities, repair and replacement of existing assets, economic uncertainties, regulatory requirements, local disasters and other financial hardships.

##### **B. Restricted Reserves**

Restricted Reserves are funds which have use restrictions or mandates imposed by an outside source such as creditors, grantors, contributors, laws or regulations governing use of such funds.

### **Reserve Accounts**

##### **A. Treatment Plant Replacement Reserve**

The Treatment Plant Replacement Reserve was created in 1983 to comply with local funding requirements imposed when the Oak View Sanitary District accepted federal and state grant funding to build the 1983 treatment plant improvements. This requirement was known in 1983 as Capital Replacement Fund (CRF) and the general idea was that the federal and state grant was going to bring Oak View Sanitary District's facilities to a level of service that would meet then current regulatory requirements. In return for the grant, the local agency was required to annually set aside funds in the CRF which would guarantee perpetual replacement of the major facilities at the same level of service. The replacement would take place as each major item in a facility reached the end of its respective service life.

Although the timing of this grant condition was before the consolidation of area sanitation agencies into the District and some of the grant-funded facilities have been demolished, the requirement for this treatment plant replacement reserve cannot be altered and was not altered by the consolidation process. As successors in interest to the Oak View Sanitary District, OVSD is bound by this same rule.

**B. Treatment Plant Expansion Reserve**

The Treatment Plant Expansion Reserve was created in the 1970's for the purpose of accounting for capacity charges collected from new customers for future expansion. Government Code section 66013 which was added to state law in 1990 to require that funds collected for capital expansion purposes be identified and accounted for separately from all other funds of the agency. This state law was passed to eliminate the perception that some agencies were charging excessive capital impact fees to new customers and using those funds for non-capital purposes. This reserve is how the District complies with Government Code section 66013 requirements.

New customers connecting to the District sewer system are required to pay a treatment plant capacity charge adopted by the Board of Directors and set forth in the OVSD Code of Regulations. The charge is calculated to be the new customer's fair share of the historic investment in existing capital facilities. Payment of this charge places the new sewer customer to have an investment on equal footing with existing sewer customers in terms of their investment in the District sanitary sewer system.

**C. Collection System Replacement Reserve**

The purpose of the Collection System Replacement Reserve is to accumulate funds for major repairs and replacement of the District's collection system facilities.

**D. Equipment Replacement Reserve**

This Reserve covers typical office equipment necessary to support administrative and management functions and tools (other than small tools) and equipment necessary to support collection system maintenance and treatment plant operations, other than small tools. This Reserve also covers Information Technology equipment and software.

**E. Vehicle Replacement Reserve**

The Vehicle Replacement Reserve covers the replacement of the District's fleet of licensed motor vehicles. Replacing vehicles is a schedule based three factors: historical mileage; use & maintenance records. All three of these factors are considered during staff's annual evaluation of the District's vehicle needs for the coming fiscal year.

**F. Building Replacement Reserve**

The Building Replacement Reserve Fund was created to cover major repairs, maintenance and replacements at the Tico Road facilities.

**G. Collection System Local Capacity Reserve**

The Collection System Local Capacity Charge equals each parcel's proportionate share of the total replacement cost of the District's existing Local Sewer facilities and is therefore, proportionate to the benefit received by that parcel.

The Collection System Local Capacity Reserve is used for capacity issues in the Local portion of the District's Collection System. This Reserve receives all Collection System Local Capacity charges when a property connects to the sewer.

**H. Collection System Trunk Capacity Reserve**

The Collection System Trunk Capacity Charge equals each parcel's proportionate share of the total replacement cost of the District's existing Trunk Sewer facilities and is therefore, proportionate to the benefit received by that parcel.

The Collection System Trunk Capacity Reserve is used for capacity issues in the Trunk portion of the District's Collection System. This Reserve receives all Collection System Trunk Capacity charges when a property connects to the sewer.

**I. Contingency & Stabilization Reserve**

The Contingency & Stabilization Reserve is used as a funding source for unexpected and unbudgeted activities or items which develop during the year for which no other source of funds exists. This fund can also provide a contribution to offset rate increases during the budgeting cycle.

**J. Debt Service Reserves**

The Debt Service Reserves are used for the annual principle and interest payments of the District's outstanding Debt Issues. These Reserves receive contributions each fiscal year from the General Fund.

**Management Responsibility**

The General Manager, and his/her designee, is authorized to establish and implement procedures to support and carry out this policy. District management will ensure that these funds and reserves are reviewed during the budget cycle and are adjusted as necessary to remain within the guidelines outlined in this document.

**Investing Reserve Funds**

Reserve Funds will be invested according to the District's Investment Policy.