

404 RESERVE POLICY

404.1 Definition of Reserves

A. Water Fund Reserves

Water rates, connection fees, standby charges and other fees collected by the District for providing water service to its residents should be established at a sufficient level to pay the expenses of day-to-day operations for providing water service as well as the anticipated repair and replacement of the District's water utility infrastructure. The excess of the amount collected in water fees and other water revenues during the fiscal year over the amount expended during the same period for water fund expenses are referred to as "retained earnings" in the Water Fund.

B. Sewer Fund Reserves

Sewer rates, connection fees, standby charges and other fees collected by the District for providing wastewater services to its residents should be established at a sufficient level to pay the expenses of day-to-day sewer and wastewater operations as well as the anticipated repair and replacement of the District's sewer and wastewater utility infrastructure. The excess of the amount collected in sewer and wastewater fees and other revenues during the fiscal year over the amount expended during the same period for sewer and wastewater expenses are referred to as "retained earnings" in the Sewer Fund.

C. Fire Fund Reserves

The District's share of general *ad valorem* real property taxes apportioned by the District's Board of Directors to fund fire protection facilities and operations and other fees collected by the District for providing fire suppression services to its residents are budgeted at a sufficient level to pay the expenses of day-to-day fire protection services as well the anticipated repair and replacement of the District's fire safety facilities and equipment. The excess of the amount collected in such fire protection revenues during the fiscal year over the amount expended during the same period for fire protection expenses are referred to as "retained earnings" in the Fire Fund.

D. Park Fund Reserves

The District's share of general *ad valorem* real property taxes apportioned by the District's Board of Directors to fund park, recreation and community facilities and operations and other fees collected by the District for providing park, recreation and community facilities services to its residents are budgeted at a sufficient level to pay the expenses of day-to-day park, recreation and community facilities services as well the anticipated repair and replacement of the District's park, recreation and community facilities and equipment. The excess of the amount collected in such park, recreation and community facilities revenues during the fiscal

year over the amount expended during the same period for park, recreation and community facilities purposes are referred to as “retained earnings” in the Park Fund.

404.2 Establishment of Reserves

In its annual preliminary and final budget, the Board of Directors may allocate any retained earnings in each of its Governmental Funds and Enterprise Funds to one or more established reserves in each such fund. There are two different types of reserves in each of the District’s funds as follows: 1) designated reserves; and 2) restricted reserves.

A. Designated Reserves

Designated reserves are net funds that are set aside based on Board policy or tentative plans for financial resource utilization in a future period, such as for general contingencies, Operating shortages, or for equipment or infrastructure replacement. Such designated reserves reflect tentative managerial plans or intent which are subject to change and which funds may never be legally authorized or result in expenditures. Examples of such designated reserves are the designated reserve for capital improvements, and the designated reserve for Operating shortages and other contingencies in each of the District’s funds.

B. Restricted Reserves

Restricted reserves are defined as that portion of retained earnings in any of the Governmental Funds or Enterprise Funds maintained by the District, or bond proceeds received by the District, which are set aside in a separate reserve in such fund, the expenditure of which are limited by legal or contractual requirements. The District also maintains restricted debt service reserves funded by a component of the District’s sewer rates and water rates as specified in Section 404.3.C below.

404.3 Categories of Reserves

Designated reserves and restricted reserves established by the Board of Directors in each Governmental Fund and Enterprise Fund of the District shall be defined as follows:

A. Designated Reserve for Capital Improvements

Funds allocated to this reserve in each Governmental Fund or Enterprise Fund of the District represent funds available to finance planned future expenditures for construction of improvements, purchase of supplies and equipment, and repair or replacement of all or a portion of the District’s water, wastewater, fire protection and park and recreation infrastructure, including but not limited to water distribution and treatment facilities and equipment, sewer collection, treatment and disposal equipment or facilities, fire suppression equipment, parks, open space and other recreational improvements and facilities, and any other District owned buildings and other structures. Appropriate expenditures of the designated reserve for capital improvements in each fund includes the costs of site acquisition, site development, including CEQA compliance, architectural services, inspection services,

engineering services, construction, reconstruction, alterations, repair and replacement, and related legal services.

B. Designated Reserve for Operating and Other Contingencies

Funds allocated to this reserve in each Governmental Fund or Enterprise Fund of the District represent funds allocated for the purpose of paying the costs and expenses associated with unanticipated events including but not limited to temporary cash flow shortages in each fund, repair and/or replacement of facilities, equipment, supplies or infrastructure in each fund resulting from a catastrophic event, or expenditures in each fund required to respond to an emergency which threatens public health and safety. Funds allocated to the designated contingency reserve in each fund may also be used to pay damage claims against the District which are not covered by insurance provided by that fund. The Board of Directors may authorize expenditure of the funds allocated to the designated reserve for Operating and other contingencies in each fund on any expenses that may be incurred during the fiscal year in each such fund for which no specific appropriation has previously been made.

C. Restricted Debt Service Reserve

The debt service charge component of the District's sewer rates and the debt service charge component of the District's water rates, as established by the Board of Directors from time to time, shall be deposited into the restricted debt service reserve established in the Water Fund and the Sewer Fund. The purpose of the reserve in each such Fund is to provide sufficient revenue to pay annual debt service on any and all bonds, including certificates of participation, or other forms of indebtedness issued by the District in each such fund to finance the construction, rehabilitation and/or improvement of the District's water, wastewater and sewer capital facilities; to provide upgraded, safe and dependable water and sewer management and to remain in compliance with existing and future state and federal regulations. This restricted debt service reserve in the Water Fund and the Sewer Fund may be divided into sub-accounts representing the annual debt service to be paid on each individual issuance of bonds, certificates of participation, or other forms of indebtedness issued by the District to finance such capital improvements in each such fund. The Board of Directors may at any time deposit any sources of retained earnings in each fund into the restricted debt service reserve for that fund.

D. Funding of Reserves

At any time after the establishment of a designated reserve or restricted reserve in any Governmental Fund or Enterprise Fund of the District, the Board of Directors may transfer any retained earnings in any such fund to such designated or restricted reserve in such fund. The Board of Directors shall declare the exclusive purposes for which the funds in each reserve in each fund may be spent on establishing such reserves in such fund. The funds deposited into each designated reserve and/or restricted reserve in each fund shall only be spent for the exclusive purposes for which the Board has established such a designated reserve or restricted reserve in each fund. The Board of Directors may transfer any revenue in any Governmental or Enterprise Fund to any restricted or designated reserve in such fund at any

time after establishment of that reserve. All such reserves shall be maintained according to generally accepted accounting principles.

E. Discontinuance of Reserves

If the Board of Directors finds that the funds in a designated reserve or a restricted reserve in any Governmental Fund or Enterprise Fund of the District are no longer required for the purposes for which such designated or restricted reserve in such fund was established, the Board of Directors may, by a 4/5 vote of the total membership of the Board of Directors, discontinue a designated or restricted reserve in any such fund of the District and transfer any funds that are no longer required from a designated reserve or restricted reserve in any fund of the District to any other reserve in such fund, or to the District's operating account.

F. Use of Reserves in an Emergency

In a state of emergency or in a local emergency as defined by Government Code Section 8558, the Board of Directors may temporarily transfer funds from a designated reserve for capital improvements, or a designated reserve for Operating or other contingencies in any Governmental Fund or Enterprise Fund of the District to the District's general fund to fund those costs necessary to respond to such emergencies. The Board of Directors shall restore any such funds to the designated reserve from which such funds were drawn as soon as feasible pursuant to the requirements of Government Code Section 61112.