

ITEM K – POLICY 2150 RESERVES

This brief is being provided to inform the Board, staff and public of the details of an agenda item that requires action from the Board. The President of the Board will provide board members, staff, and the public the opportunity to ask questions about this topic when this agenda item is announced.

Date: June 2, 2022

Originator: Cary Curtis and Kim Seney

Purpose: Proposed New Reserve Policy (#2150)

Supporting Documents Included: Yes / No Yes – proposed new policy included

Desired Action by the Board:

Second reading by the board of new Policy #2150 Reserve Policy. Discuss and approve.

1. **Description:** Proposed Policy #2150 serves to outline the Reserve Policy for GMCSD. The proposed policy is aligned with the recent financial work done to prepare for the 2022 Rate Case. The District must collect and save a portion of its revenue for to meet the future needs. Because Gold Mountain is still in “build out” phase, not only will maintaining the District require capital reserves, expansion of existing infrastructure to support build-out will be required. A robust Reserve Plan with tight controls will ensure that the District will be capable to deliver.
2. **Reason for Recommended Board Action - (*Consider compliance, cost savings, fixing a problem*):** It is a best practice to document an organization’s philosophy and strategy related to Board management of Reserves. If adopted, this Policy will become the blueprint for the District’s management of reserves.
3. **Anticipated Impacts to the District (negative and/or positive) - (*Consider financial impact, change in procedures, customer and staff communication and effect if recommendations are not adopted*):** The Reserve Policy will be neutral to the financial position of the organization. It will add more detail as it relates to account structure and Reserve management processes.

The most significant change involves handling of "capacity fees", currently referred to as System Development Charges (SDC). Under current rate legislation these fees are considered capacity fees, or the charges assessed to buy into an existing system's capacity and to be used for capacity improvements to support the new services.

These dollars will be kept in our Capital Reserve account but accounted for on their own accounting line within that fund. Note in paragraph 2150.2, that both the Restricted dollars and Designated dollars will reside within our existing Capital Reserve account but tracked and managed in two separate line-item funds: Restricted Reserves and Designated

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Reserves. This is an acceptable and legal solution and is the model most small and mid-size districts follow.

Regarding fire reserves, we currently have two Designated Reserve lines, annexation and fire break maintenance. This policy maintains a single Fire Reserve account (as we do now), but we will formally assign and track designated funds on their own line numbers.

As structured, this policy eliminated the need for several more individual reserve accounts but continues to meet the requirements for tracking funds separately.

4. **Anticipated Impacts to the Customer – Standby, Residential, Commercial:** Reporting of additional financial accounts may be more complex, however, with clear labels and context setting, it is expected that the inconvenience of the complexity will be off-set with the increased transparency of account delineation.

Recommendation (s): The Financial Committee were instrumental in creation of this policy and recommend, along with the Policy Review Working Committee, that the Board perform 2nd review, discuss, and adopt the proposed new GM CSD Policy #2150 Reserve Policy as presented.

D-R-A-F-T

POLICY TITLE: Reserve of District Funds

POLICY NUMBER: 2150

2150.1 Purpose: Reserves provide foundation for the sustainable delivery of core services. The Gold Mountain Community Services District (the District) shall contribute to and maintain reserve funds to adequately provide for general operations, capital projects, infrastructure replacement and improvement, designated reserve projects (i.e. grant funding), debt service, and maintaining the District's credit worthiness. This policy establishes the fund types, responsibilities, and funding allocations to ensure appropriate reserve management and distribution. Reserve funds include reserve contributions, designated funds, grant funds (as appropriate), and earned interest in the respective account. Reserves strengthen the financial stability of the agency against present and future uncertainties in an ever-changing operating environment. This policy serves to promulgate a shared understanding of the proper level and use of reserves among the Board, staff, and rate payers.

2150.2 Policy: Use of District Reserves is limited to available funds (not obligated by law, contract, or agreement to other uses) to meet reserve requirements defined herein. The District shall account for reserves as required by Statement 54 of the Governmental Accounting Standards Board, which defines the relative strength of the constraints that control how specific amounts can be spent. Reserve Fund types include:

- Restricted Reserves - includes funds that can be spent only for the specific purposes stipulated by external resource providers or through enabling legislation. Restricted reserves to be accounted for by line item in the Districts Capital Reserve account.
- Designated Reserves - includes funds that can be used only for the specific purposes determined by a formal action of the Board of Directors. Funds related to Capacity improvements, or specifically identified Capital Projects will be deposited to a Designated Reserve Fund. Designated reserves to be accounted for by line item in the Districts Capital Reserve account.
- Operating Reserves – the residual classification for the District’s enterprise fund for water and sewer operations, and the government fund for fire operations; includes all cash and cash equivalents not Restricted or Designated or otherwise assigned in the respective Operating Checking Account.

2.150.2.1 Responsibilities.

- a. Board of Directors:
 - i. Establish Designated Reserve Funds to deposit revenues generated by Water and Sewer fees and charges, or Government Fund tax revenues, for specific uses in

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accordance with this policy and guided by the District's Master Plan and Rate Study.

- ii. In collaboration with the General Manager/Treasurer, conduct a semi-annual (February and July) review of Designated Reserves and level of funding.
 - iii. Approve the transfer of certain Designated Reserves to the Capital Checking Account in support of approved Capital projects or for Board designated projects.
- b. General Manager/Treasurer:
- i. Serve as Chairman of the Finance Committee.
 - ii. Provide oversight of all reserve funds through quarterly reviews and reports to the Board of Directors.
 - iii. Serve as the backup point of contact (POC) with District's investment agent for the investment of District funds in accordance with (IAW) Policy 2130, Investment of District Funds.
 - iv. Work closely with the Accounting Contractor on the allocation and tracking of reserve funds.
 - v. Prepare Restricted Fund and Designated Reserve Fund transfer requests for Board action.
- c. Financial Advisor:
- i. Serve on the Finance Committee.
 - ii. Function as primary POC with District's investment agent for the transfer and investment of reserve dollars IAW Policy 2130.
 - iii. Conduct quarterly independent reviews of reserve funds and report to the GM/Treasurer.
 - iv. Conduct a comprehensive Annual Reserve Study of all funds and report to the Board of Directors.
- d. Accounting Contractor, in conjunction with GM/Treasurer
- i. Classify, track, and report fund balances by applying District accounting policies.
 - ii. Include disclosure of applicable policies in the notes to financial statements.
 - iii. Ensure the assignment of District revenues, where applicable, to the appropriate Reserve fund.
 - iv. Initiate fund transfer requests with the GM/Treasurer and Financial Advisor via email or written memorandum.

2.150.2.2 Fund Allocations and Distributions

- a. Restricted Reserves
- i. Fee revenues accumulated from Water and Sewer Capacity fees paid to join the District's Water and Sewer systems to be accounted for in a Capacity Fund.
 - ii. Accumulation of debt service as required by bond or loan covenants or requirements of grant awards
 - iii. Fund distributions approved by the General Manager/Treasurer.
- b. Designated Enterprise Fund Reserves

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- i. Scheduled fund contributions/transfers for water and sewer capital projects per the approved District budget.
 - ii. Designated Reserves are allocated to specific capital infrastructure projects by Board action in accordance with the District Master Plan.
 - iii. Fund distribution by request of the General Manager with Board of Directors approval.
- c. Enterprise Operating Reserve Fund
 - i. Revenues accumulated from water and sewer operating fund annual surpluses.
 - ii. Scheduled fund contributions per the approved District budget.
 - iii. Fund objective is to maintain a minimum balance equivalent to 3 month's (one fiscal year quarter) water and sewer operational expenses.
 - iv. Operating Fund Reserve distributions by order of the General Manager/Treasurer.
- d. Government Fire Reserve Fund
 - i. Scheduled fund contributions per the approved District budget for designated projects.
 - ii. Revenues accumulated from Fire operating fund annual surpluses.
 - iii. Fund objective is to maintain a minimum balance equivalent to 3 month's (one fiscal year quarter) fire operational expenses.
 - iv. Operating Fund Reserve distributions by order of the General Manager/Treasurer.

2150.3 Reserve Monitoring and Internal Controls

- i. The General Manager, Financial Advisor, and Accounting Contractor are collectively responsible for monitoring and accountability of Reserve Funds.
- ii. Independent quarterly review conducted by Financial Advisor with report to the General Manager/Treasurer.
- iii. Semi-Annual Review of Designated Funds by the GM/Treasurer with project designation recommendations to the Board of Directors.
- iv. Annual Comprehensive Reserve Study of all funds by the Financial Advisor with a report and recommendations to the GM/Treasurer and Board of Directors.