

TEMPLETON COMMUNITY SERVICES DISTRICT

STRATEGIC FINANCIAL POLICIES

Key objectives of these policies are to specify and mandate those concepts that foster, preserve and protect the fiscal stability of Templeton Community Services District.

The following policies are established and approved by the Board of Directors in order to (1) provide adequate funding to meet the District's short-term and long-term plans, (2) provide funds for unforeseen expenditures related to emergencies such as natural disasters, (3) strengthen the financial stability of the District against present and future uncertainties such as economic downturns and revenue shortfalls, and (4) maintain an investment-grade bond rating. The policies have also been developed to meet the requirements of GASB 34 and GASB 54.

A. CAPITAL ASSETS/DEPRECIATION FUND

Purpose - for future replacement of existing facilities, major equipment and depreciable assets as well as handling unanticipated major repairs during the asset's life cycle. Money placed in the Replacement funds shall be restricted for the acquisition of replacing capital assets and the cost of repairing the most vulnerable components of our system that is costly to replace, and would cause the greatest disruption of services.

Target - Assets over \$5,000 are depreciated on a straight line basis over an estimated useful life of each piece of equipment, vehicle or facility. The District shall annually contribute into each Replacement Fund an amount equal to 100% of the total depreciation of the District's assets belonging to that fund. Funded replacement amounts will be based on depreciation costs from the most recent previous closed fiscal year. For example: the FY 2016-17 budget amounts will be based from the 2014-15 depreciation costs. Each Operating Fund shall maintain its own Replacement Fund which will also earn its own share of interest allocation.

Replacement fund levels will be calculated as follows:

- Until such time the Replacement Fund balance has reached 75% of the accumulated depreciation for that fund, contributions will be 100% of the prior closed fiscal year.
- When the Replacement Fund balance reaches 75% of the accumulated depreciation for that fund then that fund may reduce its contribution to 75%.
- When the Replacement Fund balance reaches 100% of the accumulated depreciation for that fund then that fund may reduce its contribution to 50%.
- When the replacement Fund balance reaches 110% of the accumulated depreciation for that fund then that fund may reduce its contribution to 25%.
- When the replacement Fund balance reaches 125% of the accumulated depreciation for that fund then that fund may reduce its contribution to zero.

For example, the Water Fund has a current Replacement Fund balance of \$3,166,972 and accumulated depreciation of \$8,071,411, making the Replacement Fund currently funded at 39%. Since this falls below the 75% mark, the Water Fund must contribute 100% to its Replacement fund. For the FY 2016-17 budget the funded replacement amount would be based from the 2014-15 depreciation costs which for the Water Fund totaled \$339,205.

District assets will be capitalized as follows:

- 1) All land will be capitalized regardless of cost.
- 2) All other assets must cost \$5,000 or more and have a useful life of two or more years.
- 3) The capitalization threshold is applied to individual units of capital assets rather than groups. For example, ten desks purchased for \$1,000 each will not be capitalized even though the total (\$10,000) exceeds the threshold of \$5,000.
- 4) Repairs or improvements to existing capital assets will generally not be subject to capitalization unless the repair exceeds \$5,000 and extends the useful life of the asset.

Recommended lives

The District follows GFOA Recommended Practices when establishing recommended lives for capitalizable assets. If the life of a particular asset is estimated to be different than these guidelines, it may be changed. Summary of the estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	40 Years
Collection Facilities- (wastewater, Lines & lift stations)	20-50 Years
Equipment	5-10 Years
Furnishings	10 Years
Land	Not depreciable
Land Improvements	15-40 Years
Office Equipment	5 Years
Transmissions & Distributions (Water lines, pump stations & tanks)	20-50 Years
Vehicles	5-10 Years
Fire Apparatus	7-15 Years
Wells	25 Years

Any proceeds from assets sold and surplussed will be booked into that fund’s Replacement Fund. New, additional assets are not eligible for the use of these funds, only replacement assets qualify. Unless a specific exception is approved by the Board, no more than 50% of the Replacement Fund shall be used in any given year.

The Board may approve, at its discretion, a budget that does not fully contribute per the above policies, should the Board find that there is a higher priority need for the funding for specific operating and maintenance needs within one or more given funds.

B. CASH RESERVES

Cash Reserves may be used for cash flow purposes, Economic uncertainties and financial hardship; Local disaster or catastrophic events; Insuring against significant revenue losses; future capital obligations; Unfunded mandates; and or to establish and maintain credit worthiness.

The District will maintain multiple types of cash reserves to minimize adverse annual budgetary impacts from anticipated and unexpected District expenses. Minimum and Maximum reserve balances will be periodically reviewed by the Board and will be based upon that current fiscal year's expenditures.

1) Operating Reserves

Purpose - is to ensure cash resources are available to fund daily administration operations and maintenance of providing water, waste water, drainage, solid waste, street lights, fire, parks and recreation services and to mitigate year-to-year fluctuations in revenues and expenses. The funds will be used to offset revenue shortage due to economic hardships, changes in energy cost, prolonged drought conditions and/or unforeseen major expenses.

Target - District reserves shall be maintained in a liquid account with a 25% balance of that years budgeted operating expenditures in cash reserves in each fund budget. The District is required to have sufficient cash flow liquidity to meet the next six months of budgeted District Expenditures. Cash reserves coupled with available balances in capital and replacement funds will ensure compliance with Government Code 53646 (b)(3).

2) Debt Service Reserve

Purpose - helps ensure timely loan re-payments can be made even if there is a financial emergency within the District. Money placed in Debt Service Fund shall be restricted for the payment of a bond/loan and interest thereon.

Target - equivalent to 1 year of debt service.

C. DEBT ISSUANCE

This policy establishes parameters for evaluating, issuing and managing the District's debt and may be used as a guideline to promote sound financial management.

The District objective in issuing debt will be to (1) Achieve the lowest cost of capital (2) Ensure rate payers equity (3) Maintain high credit rating and access to credit enhancement (4) Preserve financial flexibility.

Prior to the issuance of new debt the District shall hold a public hearing to outline the debt to be financed. This requirement shall not apply to the refinancing of existing debt.

Standards for use of Debt Financing - When appropriate, the District will use long-term debt financing to: achieve an equitable allocation of capital costs/charges between current and future system users; to provide more manageable rates in the near and medium terms; and to minimize rate volatility.

Financing Criteria - Each debt issuance should be evaluated on an individual basis within the framework of the District's long range financing plan, as well as within the context of the District's overall financing objectives and current market conditions.

Refinancing outstanding Debt - The District shall have the responsibility to evaluate potential refunding opportunities presented by underwriting and/or financial advisory firms. The District follows the GFOA guidelines of 3-5% savings for determining the appropriateness of refinancing.

Method of issuance - The District will determine on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

D. CAPITAL FEES/OBLIGATION FOR NEW DEVELOPMENT

Purpose - to provide funds for orderly and timely expansion of the District facilities to meet future demand and maintain the District's existing level of service. The resources will be spent on projects which expand the District facilities, or for major capital projects.

Target - The District will strive for new development to cover its costs through a mitigation fee program. Capital impact fees/ Connection fees will be evaluated annually and updated as necessary. The District's Master Plans shall be evaluated every 5 years to ensure the mitigation fee programs are designed to fund the necessary projects.

E. BUDGET CONTROLS

The approved annual operating budget is a planning and program execution tool. It consist of Board approved revenue estimates and expenditure recommendations to carry out the mission of the District.

Departmental budgets are established in the annual budget and approved by the Board of Directors, and then managed and controlled by the department heads under the overall supervision of the General Manager. The Board of Directors may transfer funds from reserves

or approved budget amendments to departmental funds as deemed appropriate during the fiscal year.

Department heads in conjunction with the Finance Officer and with the approval of the General Manager may transfer funds between line items within the same fund without approval from the Board as long as the overall funds budget amount does not increase. Any approved transfer of funds between line items will be reported in that month's Treasurer's Report.

The budget shall include a long range economic outlook discussion and trends of revenues and expenditures by fund. This fiscal outlook shall include a discussion of any potentially needed revenue rate adjustments by fund.

F. RETIREE OPEB (OTHER POST EMPLOYEE BENEFITS) FUND

Per GASB 74 the District must report Postemployment Benefits on its financial statements. Currently the District is "pay as you go" meaning it pays retiree health insurance each month as it is due.

Target- FY 2016/17 budget a 1% contribution of each fund's OPEB allocation amount. This contribution amount will be increased annually by 1% until such time the District is contributing an amount equal to 10% for each fund. In June 2017 the District entered into an agreement with the CalPERS CERBT Program, an OPEB investment tool at Asset Allocation Strategy #2. The District will continue to pay retiree health insurance as "pay as you go" and continue to invest into an OPEB investment program until such time the account is 100% funded. Each year the Finance and Administration Committee will review the CERBT Asset Allocation Strategy and may make recommendations to change the strategy based on the performance of the Asset Allocation Strategies available to the District.

The District's OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined every three years. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

As of June 30, 2015 the current OPEB liability for each District fund is:

Water Fund- \$457,141
Wastewater Fund- \$221,706
Drainage Fund- \$876
Solid Waste Fund- \$26,207
Administration Fund- \$621,063
Fire Fund- \$331,384
Park & Recreation Fund- \$255,034

For example the Water Fund would contribute:

Year one- \$4,571.41	Year six- \$27,428.46
Year two- \$9,142.82	Year seven- \$31,999.87
Year three- \$13,714.23	Year eight- \$36,571.28
Year four- \$18,285.64	Year nine- \$41,142.69
Year five- \$22,857.05	Year ten- \$45,714.10

This example is based off of the 2013 actuarial analysis. The most recent actuarial will be used for the basis of these figures which would change every three years when the actuarial was completed.

For funds, such as the Water fund, that can afford to fully fund their OPEB liability with unrestricted fund balance, the District may fully contribute that funds portion of OPEB liability in the 2016/2017 fiscal year, and future year contributions may not be required. (Future actuarial valuation will determine if future contributions are needed). For funds that cannot make a full contribution, the budget would include OPEB costs following the table above.

The Board may approve, at its discretion, a budget that does not fully contribute per the above policies, should the Board find that there is a higher priority need for the funding for specific operating and maintenance needs within one or more given funds.

The amounts illustrated in this section would change every three years when the actuarial is completed.

G. BUILDING RENTAL AND DEVELOPMENT DEPOSITS FUND

The Rental and Developmental Deposit Fund consists of monies held on behalf of customers who rent District buildings, fire hydrant meter rentals, as well as mainline extensions or cash bonds for development projects. As deposits are released they will be refunded to the customer. Mainline extensions and development projects on a monthly basis will be reconciled to reflect staff time as well as any invoices that have been charged against that particular project. If additional amounts are owing the development customer will be invoiced. Once a project is finished it will be closed and a final accounting will be completed. Excess deposit monies will be returned to the development customer. These deposit amounts can be found under the balance sheet section of the Monthly Treasurers report under deposits. These deposit monies are not used for District purposes.

H. COMPONENTS OF FUND BALANCE

The District will report fund balance in accordance with GASB 54. The following five components will be used.

- 1) Non-Spendable Fund Balance-Fund Balance amounts set aside for items that do not represent available, spendable resources such as loan receivables and inventories.

- 2) Restricted Fund Balance- Fund Balance amounts that have external restrictions imposed by creditors, grantors, contributors, laws, regulations or enabling legislation which requires the funds to be used only for specific purposes.
- 3) Committed Fund Balance- Fund Balance amounts that have constraints imposed by formal action of the Board. Once adopted, the limitation imposed by the Ordinance/Resolution remains in place until a similar action is taken (the adoption of another ordinance) to remove or reverse the limitation.
- 4) Assigned Fund Balance- Fund Balance amounts that are constrained by the District's intent to be used for a specific purpose but are either restricted or committed.
- 5) Unassigned Fund Balance- Represents residual amounts that have not been restricted, committed or assigned.

I. PURCHASING POLICY

The District shall adopt and review no less than every three years a purchasing policy.

J. FINANCIAL REPORTS

The following reports are distributed by the Finance Officer.

- The annual audited financial statements ending June 30th.
- The monthly Treasurer's Report- Includes Schedule of Cash and Investments, Summary of Reserve and Restricted Capital, Summary of Operating Cash, monthly credit card disbursements, Expense Approval Report, Balance Sheet, Budget Report and content of any approved budget amendments submitted through a Budget Transfer Request form. This Treasurer's report is submitted within 6 weeks after the close of each month.
- Weekly Budget to Actual Reports are distributed to department heads.
- District complies with all deadlines for State Controllers Report and State Compensation Reports.

**Updated November 15, 2022