

**SANTA YNEZ COMMUNITY SERVICES DISTRICT  
MEMORANDUM**

**TO:** Board of Directors  
**FROM:** Loch Dreizler, General Manager  
Alicia Marin, Office Manager  
**DATE:** August 21, 2024  
**SUBJECT:** District Reserves – Review and discuss District Reserves and Reserve Policy

**Proposed Motion / Recommendation**

Review and discuss the reserve policy established in Resolution 15-01

Proposed Motion: No motion is necessary.

Alternative for Consideration: No alternatives.

**Policy Implications**

The District has a written reserve policy detailed in Resolution 15-01. This policy provides a basis for dealing with unanticipated revenue reductions, changes in service costs, fixed asset repair and replacement, natural disasters, and other issues.

**Fiscal Implications**

The Reserve policy provides guidelines to maintain the financial health and stability of the wastewater enterprise.

Note: Contributions to the Fund Replace Expansion Reserve are instead of funding depreciation.

**Discussion**

The reserve policy was last presented on November 15, 2023

The in-lieu of depreciation does simplify asset management; however, this method can minimize the significance of having a specific sub-category for equipment, infrastructure, or facilities. For example, if the vehicles have a specific line item for depreciation, those accumulated funds can be accessed and more easily rationalized to offset the purchase of a new vehicle.

**Attachment:**

1. Reserve and Capital Improvement Plan (CIP) Fund Calculations
2. Summary of Reserve Resolution

## Reserve and Capital Improvement Plan (CIP) Fund Calculations

	Dates for Reference - July 1 of each year					Notes
	2012	2015	2021	2023	2024	
<b>Savings</b> (Banks, CDs, LAIF)	\$ 2,730,762	\$2,671,400	\$ 5,076,918	\$ 5,880,660	<b>\$ 6,534,924</b>	
<b>Reserves</b>						
Operating	\$ 473,000	\$ 643,000	\$ 709,284	\$ 937,300	\$ 959,000	Six months of total expenses = operating reserves
Future Capacity	\$ 125,000	\$ 770,000	\$ 978,076	\$ 880,000	\$ 1,322,791	See the 2021 Rate Study, which will be recalculated based on Solvang's wastewater <i>Capacity Rate</i> for a single-family residence with a 3/4" meter.
Street Lighting	\$ 20,000	\$ 20,000	\$ 45,338	\$ 50,000	\$ 54,000	+\$4,000 annually - funded by property tax
<b>Remaining After = Replace / Expansion</b>	<b>\$ 2,112,762</b>	<b>\$ 1,238,400</b>	<b>\$ 3,344,220</b>	<b>\$ 4,013,360</b>	<b>\$ 4,199,134</b>	Enhance, replace, and expand the District's or Solvang's facilities. <b>This reserve is in place of using our calculated depreciation.</b>
Building Fund	\$ 56,000	\$ 140,000	\$ 140,000	\$ 140,000	\$ 140,000	Maintain a Building Reserve of \$140,000
Horizon Drive Fund	\$ -	\$ -	\$ 140,000	\$ 129,292	\$129,292	Funds remaining from the Horizon Drive Project
<b>Capital Improvements Projects, Vehicles &amp; Equipment</b>	<b>\$ 2,056,762</b>	<b>\$ 1,098,400</b>	<b>\$ 3,064,220</b>	<b>\$ 3,744,068</b>	<b>\$ 3,929,842</b>	Total after the Building Fund and Horizon Drive Fund reserves have received their prescribed funding.

**Note:** The District has done an excellent job maintaining reserves to consider capital improvement projects to purchase vehicles and other equipment.

## Reserve Resolution & 2021 Rate Study Summary

### 2024/2025 Capital Improvement Plans (CIP)

\$961,000 - Including Ductile Iron Pipelining project, relining manholes, and sewer system expansion design. Leaving approximately \$3 million for future capital improvements.

### Operating Reserve

The purpose of the Operating Reserve is to provide working capital to meet cash flow needs during normal operations and support the utility's operation, maintenance, and administration. This reserve ensures that operations can continue should significant events impact cash flow. The District Policy reserve target balance to be maintained is six months (180 days) of annual O&M expense. The Operating Reserve receives revenue from the operating surplus of the Enterprise Fund. Since O&M expense increases yearly, the reserve to be maintained will also increase annually.

### Future Capacity Reserve

The purpose of the Future Capacity Reserve is to fund the purchase of additional capacity in the City of Solvang's WWTP. The Future Capacity Reserve receives revenues from the Enterprise Fund and Capacity Charges. The reserve balance in this fund equals the cost to purchase 10 percent additional capacity (currently 30,000 gpd) in the Solvang WWTP. The price per gallon of additional capacity used to determine the reserve level is the current book value of the plant divided by the total plant capacity of 1.5 mgd.

It is recommended that the amount to be held in reserve be at least equal to the District's estimated cost to purchase capacity at the City of Solvang's WWTP. The current estimate to buy wastewater capacity is \$9,480 per residential unit (installed with a 3/4" water meter). Using this amount, the proposed reserve balance to be maintained in the fund is as follows:

Future Capacity Reserve =  $10\% \times 300,000 \text{ gpd} / 215 \text{ gpd per SFR} \times \text{Capacity Charge}$

Future Capacity Reserve =  $(30,000/215) \times \$9,480 \text{ (2024)}$

Future Capacity Reserve = \$1,322,791

This is the reserve formula used in this 2021 Rate Study as the Target Reserve. However, Solvang's capacity rate should be updated annually.

### Replace/Expansion Reserve

The Replace/Expansion Reserve funds the enhancement, replacement, or expansion of the District's owned/non-owned facilities. The Replace/Expansion reserve receives revenue from the Enterprise Fund after the Operating and Building Reserve has received adequate funding. Revenues are also obtained from annexation Fees. **No minimum reserve level is established for this reserve** other than the Building Reserve. However, a Target Reserve equal to the sum of a 10-year CIP that averages about \$400,000 per year in capital projects would calculate a target reserve of four million dollars.

### Street Lighting

It has historically increased by about \$4,000 per year.

### Building Reserve

The building reserve is a sub-account of the Replace/Expansion Reserve listed in the table. It is established at \$140,000 and maintained annually.