

# BOLINAS COMMUNITY PUBLIC UTILITY DISTRICT

## Financial Reserve Policy

### Purpose:

The purpose of the Bolinas Community Public Utility District (“BCPUD” or “District”)’s Financial Reserve Policy is to ensure that the BCPUD will have at all times sufficient funding available to meet its operating, capital and debt service cost obligations. Reserves will be managed in a manner that allows the District to service its debt and fund its operations and capital improvement costs consistent with the District’s annual operating budget and its Five-Year Capital Improvement Plan (updated annually, at a minimum) and avoid significant rate fluctuations due to changes in cash flow requirements. Additionally, fiscal responsibility requires that the BCPUD anticipate the likelihood of, and prepare for, unforeseen events.

The BCPUD’s Board of Directors may designate specific fund accounts and maintain minimum fund balances that it seems reasonable and proper. The directives in this policy are intended to ensure that BCPUD has sufficient funds to meet current and future needs and the BCPUD Board of Directors annually will review the level of its financial reserve funds. This policy describes how and why specific reserves are established and maintained at the BCPUD and provides the BCPUD’s customers with assurance that reserve balances will be maintained at prudent and fiscally responsible levels.

### Definitions:

The following different funds are maintained by the BCPUD:

1. General Operating Fund: Revenues are allocated to this fund each year by the Board of Directors via the annual operating budget adoption process for purposes of paying the district’s costs of operations, including employee wages and benefits, as well as maintenance and operations costs (i.e., insurance, permit and other recurring costs necessary to the district’s operations), and contributions to the district’s reserves.
2. Restricted Funds: Restrictions on the use of these funds are imposed by an outside source such as creditors or grantors, or by contractual obligations assumed by the BCPUD such a loan or other debt financing of system improvements. The BCPUD has no discretion as to the use of these funds.
3. Designated Funds: These funds are earmarked by the Board for purposes such as the funding of new capital facilities; the construction, repair or rehabilitation of existing facilities; the stabilization of rates; and the provision of operating reserves. These funds can be utilized at the discretion of the BCPUD Board, but only for the specific enterprise for which the funds have been collected.

4. Special Purpose Funds: At a Special Meeting in June 2010, the BCPUD Board established several funds for various special purposes under the direction of the BCPUD Board. These are presently the Endowment Fund, the Community Benefit Fund, and the Water Supply Study Fund. The BCPUD Board may, in its sole discretion, establish similar such funds in the future.

Unless otherwise stated in this Financial Reserve Policy, interest earned from reserve balances will be credited to the reserve account from which it was earned. In addition to the funds identified above, the BCPUD Board of Directors may approve the creation of such additional funds, whether temporary or permanent, as the Board of Directors may deem necessary or appropriate. In such event, the Board of Directors will identify the purposes for which such additional funds are created, provide guidance as to the amount which the BCPUD should endeavor to maintain in each such fund, and establish any limits or restrictions pertaining to each fund.

#### General Provisions:

BCPUD will maintain the revenues it receives and allocates to the various funds defined in this policy in a manner that ensures financial stability and provides transparency to its customers. The fund balances are considered to be the minimum necessary to maintain the BCPUD's fiscal strength and flexibility and adequately provide for:

- Compliance with applicable regulatory requirements;
- Financing of future capital projects, and repair and replacement of existing assets;
- Cash flow requirements;
- Economic uncertainties, such as local disasters, and other financial hardships or downturns in the local or national economy; and
- Contingencies or unforeseen operating or capital needs.

#### Policy:

*General Operating Fund*: The District intends to maintain a minimum balance in this account equivalent to four months of budgeted operating costs, measured at fiscal year-end. Because the District experiences a strong but predictable cycle in its annual operating cash flows, the measurement of the adequacy of this reserve at times other than fiscal year-end requires appropriate adjustment for the point in the annual cash flow cycle.

*Restricted Funds*: The District shall allocate revenue annually to this fund to repay its contractual and debt service obligations (principal and interest).

*Designated Funds*: Revenue will be accumulated in these funds to fund infrastructure projects and will be an integral part of the District's capital improvement planning process. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense. The District intends to maintain

a minimum balance in each of its designated fund subaccounts equal to one year's capital spending, measured as the average amount of capital spending in each year of the current five-year capital plan.

*Special Purpose Funds:* These funds, which are presently the Endowment Fund, the Community Benefit Fund, and the Water Supply Study Fund, do not have minimum balance requirements.

#### Procedure for Using District Funds:

*General Operating Fund:* Operating funds can be used at any time to meet cash flow requirements of District operations, as approved by the BCPUD Board of Directors via the annual budget adoption process or otherwise during the fiscal year if necessary to meet unplanned (unbudgeted) cash flow requirements.

*Restricted Funds:* The General Manager is authorized to expend these funds only to repay debt or satisfy contractual obligations in accordance with terms and conditions imposed by external parties (and accepted by the BCPUD Board of Directors on behalf of the District).

*Designated Funds:* The Board of Directors will authorize the use of designated funds during the annual budget adoption process. These funds also are available for unplanned (unbudgeted) capital replacement as may be otherwise approved by the Board. Authorization for the use of capital reserves for unplanned capital replacement must be consistent with the BCPUD Resolution 577.

*Special Purpose Funds:* These funds, including the Endowment Fund and the Community Benefit Fund, are available for such uses and at such times as directed by the BCPUD Board. As for the Water Supply Study Fund, the General Manager is authorized to expend this fund in furtherance of the district's on-going water supply augmentation study, as approved by the BCPUD Board of Directors.

#### Annual Reports

Within 90 days of the end of each fiscal year, the BCPUD's General Manager shall provide the Board with a report indicating the beginning and ending balance of each of the district's reserve funds and the purposes for which expenditures were made therefrom. The General Manager also shall make recommendations to replenish or augment fund balances, as appropriate, during the annual budget process. If projected-to-actual reserve levels fall below the minimum levels established by this policy, the General Manager shall provide to the Board (1) an explanation of why the reserve levels are not at the targeted levels and/or (2) an identified course of action to bring reserve levels within minimum levels prescribed.