

# EXHIBIT A

## Los Osos Community Services District Reserve Policy

### PURPOSE

Los Osos Community Services District (the District) shall maintain reserve funds in the Enterprise, Special and Governmental Funds except the Administrative Fund. This policy establishes the level of reserves necessary for maintaining the District's credit worthiness, operating efficiency and ~~for~~ adequately providing for:

- Funding infrastructure and equipment replacement and capital improvement programs, including advance costs for planning, design, legal and permitting work.
- Economic ~~uncertainties~~ and other financial hardships.
- Loss of significant revenue sources such as property tax receipts or connection fees.
- Local disasters or catastrophic events.
- Future debt or capital obligations.
- Cash flow requirements.
- Unfunded mandates including costly regulatory requirements.
- Evaluate, develop plans for and implement District latent powers or other service or planning needs of the community in accordance with the provisions of the Community Services District Law.

### POLICY

#### Operating (Cash) Reserves

The minimum amount of operating (cash) reserves will equal two months of operating expenses. The maximum amount of operating reserves will equal three months of operating expenses. When the maximum amount of Operating Reserves is reached, all additional operating revenue not anticipated for near term expenditures shall be invested in accordance with the District Investment Policy or transferred by action of the Board to the appropriate capital reserve account depending on how the cash surplus was generated.

#### Contingency Reserves

The minimum amount of Contingency Reserve, by Fund, will be established annually with the budget. These reserves are maintained for unexpected costs related to daily operations. Differs for funds based on historical evidence or potential for cost variability in the upcoming budget year. Contingency line items in ~~the projects or initiatives contained within the approved~~ budget and for which there remains surplus funds at the end of the fiscal year will transfer to this the appropriate Fund Reserve reserve if not used.

#### Capital Reserves

Capital reserves will be accumulated to fund infrastructure projects and will be an integral part of the District's capital plan documented in its ~~Ten-Year~~ Forecast financial forecasts and approved Capital Improvement Plans (CIP). Funding targets and annual reserve accrual rates shall be established for each Capital Reserve Fund upon its creation. A key objective for accumulating capital reserves is to minimize external borrowing and interest expense, complete advance planning, design and permitting on projects to maximize grant potential and to maintain

critical projects in a "shovel ready" condition where appropriate. The minimum amount of capital reserves will equal one year's capital spending. The maximum amount of capital reserves will equal two times the accumulated depreciation balance. When Capital Reserves are budgeted to be spent within a particular fiscal year and that expense does not occur within that year, said amount shall be carried forward and allocated to for the same purpose in the ensuing fiscal year, unless the proposed expense is withdrawn during budget development. Capital reserves established for a specific purpose shall be maintained in that reserve account and transferred for other authorized expenditures within that fund only upon authorization of the Board by resolution. Any Resolution transferring funds shall state the purpose of the transfer, the timing of payback, interest to be paid and revenue to be used to refund the original reserve account.

### Rate Stabilization Fund

The funding goal of the Board of Directors is to maintain a Rate Stabilization Fund in its The Water Enterprise Fund in an amount equal to the estimated maximum revenue loss from extreme or long term water conservation activities or other operating conditions causing revenue shortfalls where approved financial goals and plans cannot be met. does not currently maintain a rate stabilization fund, but should in the future consider establishing a  
The initial amount of rate stabilization fund with shall be a minimum amount equaling one year's water consumption revenue and - a  
- maximum amount equaling one and one-half year's water consumption revenue.

## PROCEDURE FOR USING RESERVE FUNDS

### Operating and Contingency Reserves

Operating and contingency reserves can be used at any time to meet cash flow and unexpected expenditure requirements of District operations. Authority to use the funds will be consistent with the District's ~~Purchasing Policy~~Expenditure Policy.

### Capital Reserves

The Board of Directors will authorize use of capital reserves during the budget process. Capital reserves are also available for unplanned (unbudgeted) capital replacement. Authorization for the use of capital reserves for unplanned capital replacement will be consistent with the District's Expenditure – Policy.

### Rate Stabilization Fund

The ~~Chief Financial Officer~~General Manager is authorized to use rate stabilization funds to supplement operating revenue when:

- Total revenue in the Water Enterprise Fund is projected to be five percent or more below the annual budgeted revenue.
- Developing the budget to limit customer rate increases to no more than two and one-half times the consumer price index for small west coast cities.

## PROCEDURE FOR MONITORING RESERVE LEVELS

The ~~Chief Financial Officer~~General Manager shall perform a reserve analysis to be submitted to the Board of Directors upon the occurrence of the following events:

- Board of Directors' deliberation of the annual budget;
- Board of Directors' deliberation of a service charge rate increase; or
- When a major change in conditions threatens the reserve levels established within this policy.

If the analysis indicates projected or actual reserve levels falling 10% below or above the levels outlined in this policy, at least one of the following actions shall be included with the analysis:

- An explanation of why the reserve levels are not at the targeted level, and/or
- An identified course of action to bring reserve levels within the minimum and maximum levels prescribed.