

**RESOLUTION No. 24-356 OF THE BOARD OF DIRECTORS
OF THE MISSION HILLS COMMUNITY SERVICES DISTRICT
AMENDING THE DISTRICT FINANCIAL RESERVE POLICY**

WHEREAS, the Mission Hills Community Services District (the "District") is a community services district duly formed under California Government Code Section 61000 et seq. to provide community services within the District's service area, including water and wastewater services; and

WHEREAS, it is appropriate and necessary for the District to set goals for its reserve balances for long range financial and strategic planning and to maintain the financial health and stability of all the District's systems; and

WHEREAS, it is the intention of the District Board of Directors to amend the Mission Hills Community Services District's Reserve Policy to establish various reserve categories, define the purpose and use of these funds, and identify target levels and funding of the reserves.

NOW, THEREFORE, the Board of Directors, Mission Hills Community Services District **HEREBY RESOLVES** as follows that.

1. The Reserve Policy shall include the following funds as listed below and attached hereto as Exhibit "A"
 - a. Capital Replacement Reserve Fund
 - b. Capital Improvement Reserve Fund
 - c. Emergency Reserve Fund
 - d. Operating Reserve Fund
 - e. Rate Stabilization Reserve Fund
2. On an annual basis, the Board of Directors shall review the funding options and target levels of the Reserve Policy.
3. Reserves will be held, invested and reported in accordance with the District's Investment Policy.
4. This Resolution rescinds and replaces Resolution No. 16-306.
5. Adoption of this Resolution requires a four-fifths vote of the Board of Directors.

PASSED, APPROVED, and ADOPTED this 17th day of January, 2024, by the following roll call vote:

AYES:
NOES:
ABSENT:

ATTEST: , Secretary

, President

EXHIBIT A
MISSION HILLS COMMUNITY SERVICES DISTRICT RESERVE POLICY

PURPOSE

Prudent financial planning and fiscal responsibility includes anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The Mission Hills Community District has established reserve funds for its long term organizational and operational stability and the reserve funds enable the District to minimize significant rate fluctuations due to unforeseen and expected cash flow requirements. This Financial Reserve Policy is to ensure that the District accumulates, manages, maintains, and uses certain financial resources for specific purposes.

TYPES OF RESERVE FUNDS

The District maintains two types of funds:

1. **Restricted Reserves.** Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract.
2. **Designated Reserves.** Designated reserves are reserves that are established and set aside to be used only for a specific purpose as designated by the Board of Directors.

SPECIFIC RESERVE FUNDS

The District maintains the following reserve funds:

1. ***Capital Replacement Reserve Fund*** - The Capital Replacement Reserve Fund is a designated reserve to be used to fund the capital improvement program and for unforeseen capital projects that are necessary to meet regulatory requirements, system reliability, repair and replacement of District assets. The fund provides for timely repair and replacement of system capital facilities. It is the goal of the District to maintain a Capital Replacement Reserve fund balance that is equal to the average annual 5-year Capital Improvement Program Budget for the water and wastewater funds.
2. ***Capital Improvement or Capacity Reserve Fund*** - The Capital Improvement Reserve Fund is a designated reserve to be used to fund the capital improvements that are required due to growth and new users in the system. It is funded by capacity connection charges, developer fees, and special developer agreements. The funds will be accounted for in a separate, interest-bearing account and be used to expand infrastructure and facilities to serve new development. Funds will be administered and maintained in accordance with Government Code § 66013. There is no specific target reserve amount established for this fund.

3. **Emergency Reserve Fund** - The Emergency Reserve Fund is to be used only to cover cash flow shortages caused by an unexpected event, such as a natural disaster or other unforeseen expense and allow for timely repair of capital infrastructure. It is the goal of the District to maintain the Emergency Reserve at ten (10) percent of the annual Operations & Maintenance budget of the water and wastewater fund.
4. **Operating Reserve Fund** - The Operating Reserve Fund is a designated reserve to be used only to cover cash flow shortages caused by a short-term, unexpected disruption of anticipated revenue or when expenses become due before the anticipated revenue to pay those expenses is received. This reserve ensures that operations can continue should there be significant events that impact cash flows. It is the goal of the District to maintain the Operating Reserve of no less than fifty (50) percent, or six months, of the annual water and wastewater Operations & Maintenance budget.
5. **Rate Stabilization Fund** - The **Rate Stabilization Fund** will serve as a buffer and to smooth water and wastewater rate increases during any period when there are unexpected increases in operating costs or decreases in revenues. In a severe drought or extremely wet conditions, it is reasonable to expect variable water revenue to fluctuate significantly. The purpose of this fund will absorb these types of fluctuations in water and wastewater operations and aid in the stabilization of rates and this fund shall not be used to artificially suppress rates. It is the goal of the District to maintain the Rate Stabilization Reserve at ten (10) percent of the annual water and wastewater user fee income.

MANAGEMENT OF RESERVE FUNDS

The Board of Directors, in consultation with the General Manager, will be responsible for managing the reserve funds. The Board of Directors must authorize the expenditure of money from the District's reserve funds. The Board annually will review the balance of the reserve funds, work collaboratively with the General Manager to ensure the accuracy of the annual report, and evaluate the goals and purpose of each reserve fund and recommend adjustments as may be necessary or desirable.

In accordance with the District's Investment Policy, financial reserves may be invested or otherwise held in District financial accounts, as deemed appropriate by the Board of Directors, in carrying out their fiduciary responsibilities.

