

**SANTA CLARITA WATER DIVISION
OF CASTAIC LAKE WATER AGENCY
RESERVE FUND POLICY**

This policy has been developed to maintain prudent management of a retail water system which requires that reserve funds be established and maintained to fund scheduled and unscheduled expense including operation and maintenance, debt service, emergencies, capital improvement, repair and replacement, and for stabilization of retail water rates.

Staff conducted a study to evaluate the prudent reserve fund needs of the retail operation, and has developed recommendations for the establishment of reserve funds for various purposes, identified the source of funding for such reserves and recommended target amounts for reserve funds. The monies to fund the reserves should come from revenues of the retail operations after operating expense obligations are met.

It was determined that the establishment of reserve funds is in the best interest of the Santa Clarita Water Division and the Castaic Lake Water Agency. The funds and the purpose of the funds are as follows:

- **OPERATING EXPENSE FUND.** An Operating Expense Fund was established in January 2004 to cover unscheduled costs relating to the operation of the retail water system, including, but not limited to, unforeseen repairs, emergencies, unexpected increases in treatment costs, regulatory changes and unforeseen legal expenses. The target balance for the Operating Expense Fund shall be set at 25% of the Annual Operating Budget. Funds from the Operating Expense Fund shall be used exclusively for operating expenses of the retail water system, unless otherwise authorized by the Board of Directors. The Operating Expense Fund shall be funded over a ten-year period from retail water sales revenues in excess of retail water division expenses, until the target balance is met. In any year, the balance in the Operating Expense Fund shall not exceed of 25% of that year's Operating Budget. When the balance in the Operating Expense Fund is at the target amount, additional allocations to the Operating Expense Fund, to replace funds expended over the fiscal year or to increase the balance to match increases in the Annual Operating Budget, shall be included in the budget.
- **RATE STABILIZATION FUND.** A Rate Stabilization Fund was established in January 2004 to defer rate increases for the purpose of offsetting temporary revenue reductions resulting from unusual seasons, major consumption reduction due to voluntary conservation or to correct for a net loss of revenues in the event of a catastrophic loss of imported water supplies. The Rate Stabilization Fund shall have a target balance of 2% of retail water sales revenues from the previous fiscal year, and will be funded over a ten-year period. When the fund has reached its target balance, additional allocations to the Rate Stabilization Fund shall be determined on an annual basis as a part of the budget process and shall be included in the annual budget. If at any time after the fund is fully funded the Rate Stabilization Fund drops below 80% of the target amount during a fiscal year, staff will advise the Board of Directors and recommend appropriate action.

CAPITAL PROJECT FUND. A Capital Project Fund was established in January 2004 for the purpose of setting aside funds on an annual basis to pay for anticipated capital repair, replacement and improvement projects, including projects identified in the Capital Improvement Plan for the Santa Clarita Water Division, which are planned to be paid for out of current reserves. Up to \$2,000,000 shall be transferred from the general fund account of the Santa Clarita Water Division, to the Capital Project Fund in 2004 as an initial funding level for projects identified to be constructed in 2004 and 2005. Thereafter the target fund balance shall be set and adjusted annually as a part of the budget process to cover expected CIP expenditures. In order to minimize rate increases, starting in FY 2009/10 through FY 2011/12, SCWD is funding 80% of CIP through Certificates of Participation (COP) and 20% through retail water rates.

All reserve funds are to be funded through retail water revenues. The use of the reserve funds is to be restricted to the purposes stated above unless modified or changed by the CLWA Board of Directors.