

**Santa Clarita Water Division
Reserve Funds
FY 2010/11 Budget**

Operating Expense Fund – Three months or 25% of Annual Operating Budget

The Operating Expense Fund is to be used for working cash and unscheduled costs relating to the operation of the retail water system. Additions to the Operating Expense Fund will be made from retail water revenues. The fund was established in January 2004. It is intended that the fund be funded over a ten-year period.

Rate Stabilization Fund – 2% of Sales

Approximately 69% of SCWD's revenues are derived from the commodity charges. A reduction of 25% or more would affect the financial stability of SCWD. The fund was established in January 2004 and is intended to be funded over a ten year period. An evaluation of SCWD's financial stability was prepared by the rate consultant (CDM) in August 2009. The conclusions are that the current purpose of the revenue stability fund is to reserve sufficient cash for variations in water sales resulting from unusual seasons, such as a dry hot summer. However, the fund should also be sufficient to correct for a net loss of revenues in the event of a catastrophic loss of imported water supplies. Assuming that such an event results in a 25 percent reduction in water sales for one year, the net impact is \$1.2 million or approximately 5 percent of annual revenues. An analysis of the Rate Stabilization Fund will be presented to the Retail Operations Committee and the CLWA Board during FY 2010/11.

Capital Reserve Fund

Starting in January 2004, the policy stated that all capital replacement and improvement projects will be funded through the Capital Project Fund. The Capital Project Fund was initially funded with \$2,000,000 to cover identified projects only with no annual balance remaining beyond carry-forward projects. Annually it was to fund 100% of identified budgeted CIPs from the Retail Division Operating Revenues. The policy was actually a one year expenditure fund and these funds are now separated in the Capital Project Fund in the Capital Improvement section. Based on the rate consultant's (CDM) recommendation, a separate capital reserve fund should have a target fund reserve balance annually at 20% of the expected annual average CIPs for FY 2010/11, 2011/12, and 2012/13. The capital reserve fund balance would cover unexpected capital project expenditures due to emergencies such as earthquake, fire, etc. A Capital Reserve Fund analysis will be presented to the Retail Operations Committee and CLWA Board during FY 2010/11.

<u>Reserve Fund</u>	<u>FY Ending 6/30/10 Estimate</u>	<u>Additions to Reserves</u>	<u>FY Ending 6/30/11 Budget</u>
Operating Expense Fund	\$ 2,756,796	\$ 443,312	\$ 3,200,108
Rate Stabilization Fund	\$ 484,808	\$ -	\$ 484,808
Capital Reserve Fund	\$ -	\$ -	\$ -
Total	<u>\$ 3,241,604</u>	<u>\$ 443,312</u>	<u>\$ 3,684,916</u>

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Reserve Fund	FY Ending 6/30/10 Estimate	Target as of FY Ending 6/30/11	Target as of 12/31/2014*	% of Target	Funding Level
Operating Expense Fund ¹	\$ 2,756,796	\$ 3,200,108	\$ 4,746,000	67%	25% of Annual Operating Budget Less Depreciation
Rate Stabilization Fund ²	\$ 484,808	\$ 484,808	\$ 484,808	100%	2% of Sales
Capital Reserve Fund ³	\$ -	\$ -	\$ -		
Total Reserve Funds	<u>\$ 3,241,604</u>	<u>\$ 3,684,916</u>	<u>\$ 5,230,808</u>		

* Based on FY 2010/11 dollars.

¹ Operating Expense Fund - 25% of Annual Operating Budget Less Depreciation

FY 2010/11 Annual Operating Budget	\$ 18,984,100
Less Depreciation	<u>-</u>
Annual Operating Budget Less Depreciation	\$ 18,984,100
Target Balance	<u>\$ 4,746,000</u>

² Rate Stabilization Fund - 2% of sales

FY 2010/11 Operating Revenues	\$ 24,240,400
Target Balance	<u>\$ 484,808</u>

³ Capital Reserve Fund - funded at proposed 20% of the expected annual average CIPs for FY 2010/11, 2011/12, and 2012/13. Based on a 20% pay-as-you-go policy.

FY 2010/11	\$ 5,461,140
FY 2011/12	\$ 6,756,200
FY 2012/13	<u>\$ 7,878,600</u>
Total FY 2010-2013	\$ 20,095,940
Annual Average	\$ 6,698,647
20% of Annual Average	\$ 1,339,729