

RESERVE FUNDS

Through FY 2009/10, the Agency's reserve policy has been to set aside as "reserves" an amount equal to three times the annual (fiscal year) COP debt obligation, less the amount held by Trustees. In FY 2009/10, this amount was approximately \$59.6 million. Beginning in FY 2010/11, the Agency will implement new reserve policies intended to maintain at least the same amount of reserves, but also make the policies more specific. The new reserve policies include Operating Reserves of three months of operating expenditures, Debt Service Reserves of annual debt service less restricted debt service reserve funds held by Trustee, Capital Reserves of one year of the current pay-as-you-go capital improvement program plus 40% of the next fiscal year program, and liquidity reserves of 700 days of operating expenditures less the Operating Reserves. In adopting the new reserve policies, the Board of Directors directed that the new policies be implemented over a five-year period beginning with the FY 2010/11 Budget, so long as the minimum funding level is at least equal to the amount that would have been required under the new policies.

The specific policies are as follows:

Operating Reserves. Operating Reserves are equal to three months of operating expenditures, and are designated to provide financial flexibility to respond quickly to emergency repairs, unanticipated operations and maintenance activities, local disasters or catastrophic events, costly regulatory requirements, water quality deficiencies, or other operating emergencies. The source of funding for Operating Reserves should be the General Fund (wholesale water rates).

Debt Service Reserves. Debt Service Reserves are equal to annual debt service less restricted debt service reserve funds, and are restricted to helping to maintain debt service coverage and mitigate variability of revenues and expenditures. The source of funding for Debt Service Reserves should be a combination of one percent property tax revenues and Facility Capacity Fees in the proportions those funds pay for debt service.

Capital Reserves. Capital Reserves are equal to one year of the current fiscal year pay-as-you-go capital improvement projects and 40% of the next fiscal year pay-as-you-go capital improvement projects, and are designated to fund capital improvement projects such as, but not limited to, minor capital projects; capital planning, studies and administration; new capital equipment and repair and replacement projects. The source of funding for Capital Reserves should be one percent property tax revenues since these funds are the current source of funding for the pay-as-you-go capital improvement program.

Reserves for Economic Uncertainties and Catastrophic Situations. Reserves for Economic Uncertainties and Catastrophic Situations are the Agency's general reserves, equal to 700 days of operating expenditures, less Operating Reserves. This level of liquidity is designed to maintain and perhaps enhance the Agency's credit rating. These reserves are designated for economic uncertainties and financial hardships, loss of significant revenue sources, local disasters or capital obligations, cash flow requirements, unfunded mandates including costly regulatory requirements and other such needs. The source of funding for these reserves should be a combination of one percent property tax revenues and Facility Capacity Fees, subject to availability of funding.

Based on the FY 2010/11 Budget, the **targeted** reserve funding amounts and sources of funds are shown below. The Debt Service Reserves and the calculation of previous reserve policy amounts are based on FY 2011/12 debt service payments rather than FY 2010/11 debt service payments. The FY 2010/11 debt service payments include a one-time decrease of approximately \$3 million in debt service, which decreases the reserve amounts for one year only. To maintain consistency, reserves are calculated based on FY 2011/12 debt service payments.

Title	Total	One Percent Property Tax Revenues	Facility Capacity Fees	General Fund (water rates)
Debt Service Reserves *	\$ 10,075,300	\$ 2,180,600	\$ 7,894,700	\$ -
Operating Reserves	4,030,900	-	-	4,030,900
Capital Reserves	15,442,400	15,442,400	-	-
Economic Uncertainties (liquidity)	26,890,900	15,348,000	11,542,900	-
Total	\$ 56,439,500	\$ 32,971,000	\$ 19,437,600	\$ 4,030,900
Previous Reserves **	\$ 59,292,820	\$ 39,855,220	\$ 19,437,600	\$ -

* Based on FY 2011/12 debt service payments.

** Based on three times annual debt service (FY 2011/12) less reserves held by Trustee.

For the FY 2010/11 Budget, the reserves are **budgeted** as follows:

Title	Total	One Percent Property Tax Revenues	Facility Capacity Fees	General Fund (water rates)
Debt Service Reserves *	\$ 10,075,300	\$ 2,180,600	\$ 7,894,700	\$ -
Operating Reserves	726,000	-	-	726,000
Capital Reserves	15,442,400	15,442,400	-	-
Economic Uncertainties (liquidity)	33,049,120	33,049,120	-	-
Total	\$ 59,292,820	\$ 50,672,120	\$ 7,894,700	\$ 726,000
Previous Reserves **	\$ 59,292,820	\$ 39,855,220	\$ 19,437,600	\$ -

* Based on FY 2011/12 debt service payments.

** Based on three times annual debt service (FY 2011/12) less reserves held by Trustee.

For FY 2010/11, the Agency is able to achieve full targeted funding of the reserves overall, although not by ideal sources of funding. The Agency may not be able to achieve the full targeted funding in upcoming fiscal years, depending on revenue trends. These trends will be monitored and the Agency will implement the new reserve policies over the five-year period.



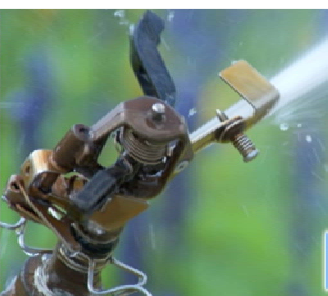
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