

**CASTAIC LAKE WATER AGENCY
RESERVE FUND POLICIES
(WHOLESALE WATER SYSTEM)**

(Board Approved; Originally Adopted February 2010; Revised January 2016)

INTRODUCTION

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

Staff evaluated the prudent reserve fund needs of the wholesale system and identified the sources of funding for such reserves and recommended target amounts for reserve funds. The monies to fund the reserves should come from revenues of the wholesale operations after operating expense obligations are met.

STATEMENT OF PURPOSE

The purpose of the Castaic Lake Water Agency's Reserve Policy for the wholesale water system is to ensure the Agency's financial stability and to have sufficient funding available to meet its operating, capital and debt service cost obligations. This policy establishes the level of reserves necessary for maintaining the Agency's credit worthiness and ratings and for adequately providing for:

- Cash flow requirements and working capital.
- Economic uncertainties and other financial hardships, including performance of the regional economy and water supply reliability.
- Infrastructure replacements.
- Emergency repairs.
- Local disasters, natural disasters or catastrophic events.
- Loss of significant revenue sources due to variations in water sales resulting from variable weather conditions or conservation.
- Unfunded mandates including costly regulatory requirements.

POLICY

Reserve Policy

The reserve policies include:

1. Operating Reserves of three months of operating expenditures
2. Debt Service Reserves of annual debt service less restricted debt service reserve funds
3. Capital Reserves of one year of the current pay-as-you-go capital improvement program
4. Reserves for Economic Uncertainties and Catastrophic Situations, equal to 500 days of operating expenditures less the Operating Reserves.

Types of Required Reserves

The establishment of required reserve funds is in the best interest of the Castaic Lake Water Agency. The Santa Clarita Water Division of the Castaic Lake Water Agency has its own reserve fund policies specific to its retail operations and the wholesale water system reserve fund policies will not apply to the Santa Clarita Water Division. The revised reserve fund policy and the purpose of the funds for the wholesale water system 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.

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.

Capital Reserves. Capital Reserves are equal to one year of the current 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.

Reserves for Economic Uncertainties and Catastrophic Situations. Reserves for Economic Uncertainties and Catastrophic Situations are the Agency's general reserves, equal to 500 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.

Repair and Replacement Reserve

During FY 2012/13, the Board of Directors adopted a new wholesale water rate structure effective July 1, 2013 that includes transferring Buena Vista/Rosedale Rio Bravo (BV/RRB) water supply costs from the capital improvement budget to the General Fund/Operating Budget over ten years. This will free up one percent property tax revenues to fund a Repair and Replacement Reserve that will be used for future replacement of aging infrastructure. The Agency has started the development of an asset management program to manage the Agency's infrastructure. When the overall asset management program is more fully developed, a specific Repair and Replacement Reserve Fund policy will be developed. At this time, the new reserve will begin accumulating funds for future repair and replacement needs.

Reporting

The annual Budget document will include a reserve analysis, showing reserve amounts and targets for each type of reserve, and should a major change in conditions threaten reserve levels, the General Manager will provide an analysis to the Board of Directors. This analysis would include an explanation of why reserve levels are below targeted levels and/or a recommended course of action to improve reserve levels.

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