

RESOLUTION NO. 208

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE LA PUENTE VALLEY COUNTY WATER DISTRICT AMENDING AND RESTATING ITS RESERVE FUND POLICY

WHEREAS, the Board of Directors desires to amend the guidelines for the management of the District's reserve funds, to establish additional reserve funds, and to specify how individual reserve funds are to be used; and

WHEREAS, the Board of Directors wants to ensure that the District will at all times have sufficient funding available to meet its operating and capital requirements; and

WHEREAS, the Board of Directors believes existing customers should pay a fair share of the cost to upgrade existing facilities or future replacement of facilities that will be used to provide them service; and

WHEREAS, the Board of Directors believes it is important to maintain sound financial policies to promote favorable bond ratings in capital markets so that public financing of future projects can be obtained, if needed; and

WHEREAS, the Board of Directors also wishes to avoid significant rate fluctuations in the future; and

WHEREAS, in furtherance of the foregoing objectives, the Board of Directors is adopting this resolution to amend and restate the Reserve Fund Policy,

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the La Puente Valley County District does hereby adopt and enact the following reserve fund policy and authorizes District staff to take all necessary actions to implement it.

LA PUENTE VALLEY COUNTY WATER DISTRICT RESERVE FUND POLICY

PURPOSE

The La Puente Valley County Water District's (the "District") Reserve Fund Policy is established to ensure that the District will maintain sufficient funding available to meet its operating and capital requirements. Reserves will be managed in a manner that allows the District to fund costs consistent with its Water Master Plan objectives and its annually adopted Budget, while avoiding significant rate fluctuations due to changes in cash flow requirements. Adequate reserves and sound financial policies will enhance the District's bond ratings in the capital markets, provide financing flexibility, and ensure the District's customers of stable rates. This Reserve Fund Policy applies to all current reserve funds of the District, but the Board of Directors may by duly noticed and authorized action establish new or different reserve funds, or modify existing reserve funds, and specify the proper uses therefore.

Each reserve fund shall be identified as either a “restricted” or “unrestricted” fund. In addition, to the extent possible, each fund shall:

- Have a defined and distinct purpose.
- Specify target level or range with a minimum and maximum level of funding.
- Identify events or conditions that prompt the use of the reserve.
- Require periodic review of balances and target levels.

Balances maintained shall be sufficient to meet minimum reserve targets in cash and/or cash equivalents, and permitted investments under the District’s Investment Policy.

1. RESTRICTED RESERVES

Restricted Reserves are established and utilized for narrowly defined purposes and are protected by law or covenant. The District’s Restricted Reserves are:

a. Water System Connection Fee Fund

- *Definition and Purpose* – Established with funds from developers or new customer connection charges. The collection and use are restricted to maintaining, replacing and upgrading the District’s Water System and for the acquisition of additional sources of water supply.
- *Target Level* – This reserve has no specific target level.
- *Events or Conditions Prompting the Use of the Reserves* – When staff identifies a funding need for facilities and/or additional water resources that are necessary to meet the capacity and water supply requirements of the District’s System. Funds will be appropriated from the respective reserves for applicable projects, by action of the Board of Directors.
- *Periodic Review Dates for Balances* - Reserve balances will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

b. Retiree Health Benefits Fund

- *Definition and Purpose* – Established, in accordance with the District’s Policy for funding post retirement healthcare benefits (Resolution 205), for funds designated for the payment of employee retiree (and eligible spouse) health benefits, These funds shall be set aside solely for the purpose of providing benefits to participants in the retiree health benefit plan and defraying the reasonable expenses of administering the plan. All funds acquired or set aside to pay for the future cost of retiree healthcare benefits shall be transferred to this fund before being transferred to the District designated OPEB Irrevocable Trust Fund.
- *Target Level* – minimum target level shall be 50% of the projected subsequent annual medical benefit premiums for retirees. The maximum level shall be 300% of such premiums.
- *Events or Conditions Prompting the Use of the Reserves* – On an annual basis staff shall transfer an amount into the District’s designated OPEB Irrevocable Trust Fund so as to maintain the fund within its target levels and to minimize the District financial liability for post-retirement healthcare benefits.

- *Periodic Review Dates for Balances* – Reserve balances will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

2. UNRESTRICTED RESERVES

- a. **Designated Capital Reserves** are established by action of the Board of Directors for specific purposes. These funds are utilized primarily to cover capital and asset replacement costs. These funds consists of:

1. Capital Improvement and Replacement

- *Definition and Purpose* – Established to accumulate amounts to fund the replacement or major refurbishment of aging utility plant, equipment and facilities.
- *Conformity to Plans* – Projected reserve levels should be developed in accordance with the District’s Water Master Plan.
- *Target Level* – The District may set aside replacement reserves on a project-by-project basis and target levels may vary accordingly. The (District-wide) minimum target level should be equal to 10% of the accumulated depreciation recorded on the District’s fixed assets, less the amount appropriated in the current year annual budget for capital improvement projects. The (District-wide) upper target level should seek to fund a reserve equal to 10% of the book value of the District’s capital assets.
- *Events or Conditions Prompting the Use of the Reserves* – Staff will recommend assets to be replaced during the annual budget preparation. By action of the Board of Directors, funds will be appropriated from the reserves for the purchase or construction of replacements. If during the year emergency replacements are necessary, the Board may amend the budget and appropriate funds as necessary to accomplish the replacement or refurbishment.
- *Periodic Review Dates for Balances* – Reserve balances and replacement requirements will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual capital budget.

2. Vehicle and Equipment Replacement

- *Definition and Purpose* – Established to accumulate amounts to fund the replacement of vehicles, equipment, tools, computer systems and scada equipment.
- *Target Level* – Minimum of \$25,000 and maximum of \$75,000.
- *Events or Conditions Prompting the Use of the Reserves* – Equipment to be replaced will be identified by District staff and recommended to the Board during the preparation of the annual budget. As replacements are approved, funds will be appropriated from this reserve or available revenues.
- *Periodic Review Dates for Balances* – Reserve balance and projected replacements will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual budget.

- b. **Operating Reserves** have been established by the Board of Directors to safeguard the financial viability and stability of the District and are funded from revenues accumulated in the District's General Fund.

1. Working Capital Reserve

- *Definition and Purpose* – Established to cover temporary cash flow deficiencies caused by timing differences between revenues and expenditures.
- *Target Level* – Minimum funding shall be equal to 3 months of the District's total operating expenses, and should not exceed an amount equal to 8 months of operating expenses.
- *Events or Conditions Prompting the Use of the Reserves* – This reserve may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenues and expenses.
- *Periodic Review Dates for Balances* – Reserve balance and target level will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

2. Rate Stabilization Reserve Fund

- *Definition and Purpose* –Established to cover the unexpected increase in the cost of water supplies and temporary cash flow deficiencies caused by timing differences between revenues and water supply expenditures. The Rate Stabilization Reserve Fund is designed to help defray successive annual increases in the cost of water rights leases and Main San Gabriel Basin Watermaster assessments.
- *Target Level* – The minimum reserve shall be maintained at an amount equal to 50% of the projected annual cost of water rights leases and assessments associated with water production and, in any single calendar year, should not exceed 200% of these costs.
- *Events or Conditions Prompting the Use of the Reserves* – This reserve shall be used to mitigate the impact on water rates arising from any temporary unforeseen and extraordinary increases in the cost of water supply. The Board of Directors, on a case by case basis, will determine the amount and timing for any use of the reserve.
- *Periodic Review Dates for Balances* – Reserve balances will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

3. Emergency / Disaster Reserve

- *Definition and Purpose* – Established to cover costs not covered by the District's insurance policies, primarily major costs associated with a catastrophic failure of a critical District asset, or natural disasters not reimbursable by state or federal government programs.

- *Target Level* – Funding shall be targeted at one (1%) to two (2%) percent of the book value of the District’s capital assets.
- *Events or Conditions Prompting the Use of the Reserves* – The Board of Director’s may authorize use of this reserve after determining that conditions exists as specified in the Definition and Purpose for this reserve.
- *Periodic Review Dates for Balances* – Reserve balance and target level will be reviewed by District staff and the Board of Directors during the preparation and approval of the annual operating budget.

PASSED, APPROVED AND ADOPTED at a Regular Meeting of the Board of Directors of La Puente Valley County Water District held on May 21, 2012, was adopted by the following vote:

AYES: Directors - Hernandez, Hastings, Aguirre, Escalera and Rojas

NOES: None.

ABSTAIN: None.

ABSENT: None.

Attest:


Henry P. Hernandez, President


Rosa Ruchlman, Secretary