

BUDGET – FINANCIAL RESERVES POLICY

POLICY TITLE: Reserves

POLICY NUMBER: 3500

3500.1 Need for Reserves.

Not all operating and capital expenses of the District can be precisely forecast, and factors such as weather, emergency repairs, energy cost fluctuations, third party liability claims, regulatory charges, fines, and regional or national calamities require that the District retain prudent amounts of reserves because of the time required to raise funds through rate increases. The District must accumulate and maintain sufficient fund balances in its operating and capital accounts to meet current and projected expenses, cover cash flow requirements, cover debt payments, and provide for both anticipated and unanticipated liabilities and expenses without adversely affecting the District's ability to provide both short and long term, high quality, uninterrupted service in compliance with applicable federal and state law, and regulatory permits.

3500.2 Rate Stabilization Reserve.

3500.21 Purpose: The Rate Stabilization Reserve enables the District to meet unusual or unexpected operating or capital expenses.

3500.22 Reserve Amount: The target amount for the Rate Stabilization Reserve shall be \$1,500,000 as of July 1, 2013. It shall be adjusted annually based on the ENR Construction Cost Index for the San Francisco Bay Area.

3500.23 Use: Expenditures from the Rate Stabilization Reserve must be approved by the Board of Directors except that the Manager-Engineer may authorize expenditures in the event of an emergency that threatens public health or environmental quality. The Manager-Engineer must then convene a noticed meeting of the Board of Directors as soon as it is feasible to obtain a quorum.

3500.24 Replenishment: In the event of drawdown, the Rate Stabilization Reserve shall be replenished within four years.

3500.3 Wastewater Capital Reserve Fund.

3500.31 State Revolving Fund Loan: The District borrowed \$81,307,947 from the State Revolving Fund (SRF Loan) between 2008 and 2011. The loan is being repaid in annual installments of \$5,378,956 due each December 31 through June 30, 2031. The loan agreement terms require that the District establish and maintain a "Wastewater Capital Reserve Fund" for expansion, major repair, or replacement of the wastewater facilities for the term of the loan agreement. The District established the Wastewater Capital Reserve Fund by Resolution No. 2933 adopted on April 24, 2006.

The District must deposit sufficient funds to build up the Wastewater Capital Reserve Fund at a minimum rate of 0.5% of the SRF loan amount each year for a period of ten (10) years. The District's unused bonding capacity of \$3,275,000 from the 1970 and 1986 GO Bonds may be used to offset, dollar for dollar, the required cash deposits to the Wastewater Capital Reserve Fund.

Money deposited in the Wastewater Capital Reserve Fund shall be available for the costs for planning, design, and construction of capital improvements to the wastewater treatment facilities. However, the District must replace any amounts expended from the Wastewater Capital Reserve Fund by depositing at a minimum annual rate of ten (10) percent of the expended amount.

All interest earned on deposits to the Wastewater Capital Reserve Fund shall remain in the Fund and restricted to the allowed uses.

3500.32 Purpose: The Wastewater Capital Reserve Fund is dedicated to the expansion, major repair, or replacement of the wastewater treatment facilities in accordance with the terms of the State Revolving Fund loan.

3500.33 Reserve Amount: The reserve amount is set by the terms of the loan as shown below:

Fiscal Year	Loan Amt	Annual Required	Fund Balance Required	Deposit
2008/9	21,691,826.00	108,459.13	108,459.13	3,275,000.00 *
2009/10	47,989,587.00	239,947.94	348,407.07	
2010/11	72,720,776.00	363,603.88	712,010.95	
2011/12	81,329,083.00	406,645.42	1,118,656.36	
2012/13	81,307,946.00	406,539.73	1,525,196.09	
2013/14	79,875,979.00	399,379.90	1,924,575.99	
2014/15	74,366,047.00	371,830.24	2,296,406.22	
2015/16	70,771,876.00	353,859.38	2,650,265.60	
2016/17	67,091,444.00	335,457.22	2,985,722.82	
2017/18	63,322,683.00	316,613.42	3,302,336.24	27,336.24
2018/19	59,463,471.00	297,317.36	3,599,653.59	297,317.36

* Unused bonding capacity from 1970 and 1986 GO bonds.

3500.34 Control: Expenditures from the Wastewater Capital Reserve Fund must be authorized by the Board of Directors and replaced as specified in the SRF loan terms at a minimum annual rate of 10% of the expended amount.

3500.4 Certificates of Participation Reserve.

3500.41 Certificates of Participation: The District issued \$21,750,000 of Certificates of Participation (COP) in October 2011 to fund Collection System, Pump Stations, Reclamation System, and Treatment Plant Capital Improvements. The COPs will be repaid over 20 years.

The Trust Agreement established a reserve fund as a reserve for the payment of the installment payments. The reserve fund was initially funded by the District at \$1,500,000. It is held by the Trustee and maintained in the amount of the reserve requirement. The "Reserve Requirement" is defined in the Agreement to mean, as of the date of calculation, an amount equal to the lesser of (i) 10% of the original principal amount of the COPs;(ii) maximum amount of Installment Payments due in the current or any future Fiscal Year prior to the final maturity of the Certificates; or (iii) 125% of the total amount of then unpaid installment payments as of the date of calculation, and dividing that total by the number of fiscal years remaining to final maturity of the COPs.

The Official Statement for the COPs referenced the District's Rate Stabilization Fund that allows the District to spread unexpected expenses over several years. The minimum fund balance was identified as \$600,000 which will be replenished over a three to four year period should the fund be drawn down.

3500.42 Purpose: The COP Reserve fund serves as a reserve for the payment of the installment payments.

3500.43 Reserve Amount: The "COP Reserve Requirement" is defined in the Agreement to mean, as of the date of calculation, an amount equal to the lesser of (i) 10% of the original principal amount of the COPs; (ii) maximum amount of Installment Payments due in the current or any future Fiscal Year prior to the final maturity of the Certificates; or (iii) 125% of the total amount of then unpaid installment payments as of the date of calculation, and dividing that total by the number of fiscal years remaining to final maturity of the COPs. It was initially funded at \$1,500,000.

3500.44 Control: The COP Reserve fund is held by the COP Trustee. If the balance in the COP Reserve Fund exceeds the reserve requirement, the Trustee will transfer the excess to the installment payment fund at least semiannually on or prior to each installment payment date.