

RESOLUTION NO. 1829

A RESOLUTION OF THE BOARD OF DIRECTORS
OF CALLEGUAS MUNICIPAL WATER DISTRICT ADOPTING AND IMPLEMENTING A
FINANCIAL RESERVE POLICY AND RESCINDING RESOLUTION NO. 1742

WHEREAS, the purpose of the Calleguas Municipal Water District (Calleguas) Financial Reserve Policy is to ensure that Calleguas continues to have sufficient funding available to meet its operating, non-operating, capital and debt service obligations; and

WHEREAS, adequate reserves and sound financial policies maintain Calleguas' bond ratings in the capital markets, provide financing flexibility, and sustain debt covenant compliance; and

WHEREAS, the Financial Reserve Policy establishes various reserve categories, defines the purpose and use of these funds, and identifies target levels.

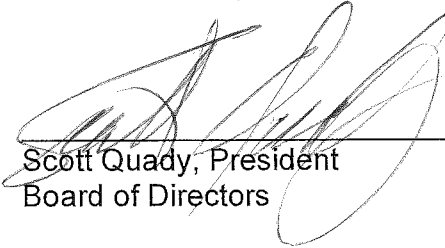
NOW, THEREFORE, THE BOARD OF DIRECTORS OF CALLEGUAS
MUNICIPAL WATER DISTRICT RESOLVES AS FOLLOWS:

Section 1. The policy is set forth in the Calleguas Municipal Water District Reserve Policy attached hereto as Exhibit A.

Section 2. On an annual basis, the Board of Directors shall review the Financial Reserve Policy and make any modifications which it deems necessary or desirable.

Section 3. Resolution No. 1742 adopted on April 18, 2012 is hereby rescinded effective at 12:01 a.m. on April 30, 2014, at which time this Resolution No. 1829 shall become effective.


ADOPTED, SIGNED AND APPROVED this twenty-ninth day of April, 2014.



Scott Quady, President
Board of Directors

I HEREBY CERTIFY that the foregoing Resolution was adopted at a meeting of the Board of Directors of Calleguas Municipal Water District held on April 29, 2014.

ATTEST:



Andres Santamaria, Secretary
Board of Directors

Calleguas Municipal Water District

RESERVE POLICY

Purpose of Reserve Policy

Prudent financial planning and fiscal responsibility include anticipating and preparing for future funding requirements as well as unforeseen and unexpected emergencies, disasters, and other events. The reserve funds enable Calleguas Municipal Water District to minimize significant rate fluctuations due to both unforeseen and anticipated cash flow requirements. Adequate reserves have a positive impact on Calleguas' bond rating and the ability to access debt markets at favorable interest rates, helping to ensure its ability to finance and construct the infrastructure necessary to repair and replace its facilities, as well as expand the system to meet future demands. This Reserve Policy establishes general guidelines for cash reserves that will help to ensure the long-term financial, organizational and operational stability of the organization.

Types of Reserve Funds

The District maintains two types of funds:

1. **Legally Restricted Reserves.** Restricted reserves are reserves that are restricted by an outside source, such as by statute, court, or contract.
2. **Designated Reserves.** Designated reserves are reserves that are established and set aside by the Board of Directors to be used only for a specific, designated purpose.

Legally Restricted Reserves

Debt Service Reserve. This is a restricted reserve that is governed by legal bond covenants and is to be used if the District is unable to meet the required debt service obligation. The bond covenants require that Debt Service Reserve be maintained at a level sufficient to fund the maximum annual debt service payments.

Designated Reserves

Operating Activities

Emergency Water Replacement Reserve. These reserves ensure that local water used in a prolonged shutdown of imported water supply can be replenished as quickly as possible.

This reserve is to be used to purchase water from Metropolitan Water District to replenish any water produced from the Las Posas Basin or Lake Bard during an unanticipated shutdown.

A Maximum Reserve Capacity will be established at 27,500 A.F. and is based on the following:

20,000 A.F. Las Posas well field (six months well field production @ 55 cfs*)
<u>7,500 A.F. Maximum water available in Lake Bard</u>
27,500 A.F. Maximum Reserve Capacity

*-Pumping capacity (55 cfs) may be revised as information becomes available from future well field testing and analysis.

The Reserve Replacement Capacity will be determined by reducing the Maximum Reserve Capacity by the cumulative amount of injected water in the Las Posas well field and the water stored in Lake Bard in excess of 2,500 A.F.

The reserve amount will be based upon current estimated pumping and treatment costs for the Maximum Reserve Capacity, and the current Metropolitan Water District Tier 1 water rate for the Reserve Replacement Capacity. The pumping and treatment costs will be adjusted annually on January 1st by the November CPI percentage for the Los Angeles area.

Operating Reserve. These reserves cover temporary cash flow deficiencies that occur as a result of timing differences between the receipt of operating revenue and expenditure requirements as well as unexpected expenditures occurring as a result of doing business. In addition, reserve funds may be used to smooth rate increases passed on to the purveyors from Metropolitan Water District. It is the goal of the District to maintain the Operating Reserve in excess of 50% of budgeted Operating Administration costs.

Unrestricted Reserves. These reserves represent a remainder balance of cash that is not yet designated for some use by the Board of Directors.

Construction Activities

Emergency Reserve. These reserves shall be used to cover unexpected or emergency repair expenditures by the District as a result of a natural disaster or other unexpected loss. Any reimbursement received by the District from grants or insurance companies as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss. As of January 1, 2012, the amount will be set at \$15,000,000 and will be adjusted annually on January 1st by the November Engineering News Record Construction Cost Index for the Los Angeles area.

Capital Reserve. These reserves are to be spent directly on capital expenditures. The Capital Reserve Fund is established to fund capital projects in the District's 10 Year Capital

Improvement Program or otherwise identified by the Board as necessary to meet regulatory requirements, system reliability, and future needs of the District.

The Capital Reserve is derived from the remaining cash received from the Capital Construction Surcharge portion of the Calleguas MWD Rate after all Debt Service payments, budgeted capital expenses or contributions and Emergency Reserve Fund requirements have been met. Annual replenishment and balance is reported to the Board of Directors as part of preliminary and final budget approvals.

Summary

The Board of Directors, in consultation with the General Manager, will be responsible for managing the reserve funds. The Board of Directors must authorize the expenditure of money from all of the District's reserve funds. The Board will annually review the balance of the reserve funds and work collaboratively with the General Manager to evaluate the goals and purpose of each reserve fund, and make adjustments as may be necessary or desirable.