# RESOLUTION NO. 13-13

# PALMDALE WATER DISTRICT'S RESERVE POLICY

WHEREAS, the Board of Directors recognizes the need to ensure that the District will have sufficient funding available to meet its operating, emergency capital, and debt service obligations.

WHEREAS, the Board of Directors recognizes the need for sound financial policies as stewards of our customers' funds.

WHEREAS, the Board of Directors recognizes the need for funds to be held in reserve for unanticipated and unforeseeable expenses.

WHEREAS, the Board of Directors recognizes the need to avoid significant water rate fluctuations.

WHEREAS, the Board of Directors recognizes a need for long term strategic financial policies.

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Palmdale Water District hereby rescinds the District's existing Reserve Policy (Resolution No. 09-03) and establishes the Palmdale Water District Reserve Policy as follows:

***Legally Restricted Funds:***
The Capital Improvement Fees, as modified by District Resolution No. 13-12 to consist of fee components allocated for infrastructure and for water supply and Water Supply Connection Fees, are subject to the requirements of the Mitigation Fee Act (AB 1600). The funds may not be used to support ongoing operations of the District. The District is legally required to account for these funds separately. An annual report is required to show balance forward, fees collected, income earned, expenditures, and future commitments. All funds collected must be committed or expended within five years of being collected or they must be refunded.

1. *Capital Improvement Fund:*

PWD will maintain a capital improvement fund with fees collected from developers to pay for the new facilities necessary to deliver water service to newly developed property and to pay for the additional water supplies necessitated to meet the demand for water created by such newly developed property. These fees are for offsite improvements such as the development's fair share cost of wells, reservoirs, transmission mains, treatment plant capacity, and other necessary facilities, as well as to pay for water supply acquisitions and projects associated with new water supplies necessitated by new development. The fees are collected at rates established by the Board of Directors based upon specific engineering studies. The rates charged are based on a project's equivalent capacity unit (ECU) basis. These funds are restricted

to the design and construction of capital facilities for water delivery, and as otherwise provided in Resolution No. 13-12 and in Appendix H to the District's Rules and Regulations.

*2. Bond Proceeds Fund(s):*

Bond proceeds fund(s) are monies derived from the proceeds of a bond issue. Typically they consist of construction fund monies and a debt service reserve fund. The use of these proceeds is restricted by conditions set forth in the respective legal bond documents. These funds are usually held by the Trustee in favor of the bond holders.

*3. Debt Service Reserve Funds:*

This fund is governed by legal bond covenants for the District's revenue bonds. Bond covenants require that this fund be maintained at a level sufficient to fund maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service obligation. Annual interest earnings on bond reserve funds shall be applied to each year's debt service payments.

A Reserve Fund for the 2013A Bonds is established pursuant to the Indenture in an amount equal to the Reserve Requirement. Assured Guaranty Municipal Corp. ("AGM") has committed to issue, simultaneously with the execution and delivery of the 2013A Bonds, a municipal bond debt service reserve insurance policy in an amount equal to the initial Reserve Requirement for deposit in the Reserve Fund.

*4. Rate Stabilization Fund:*

This fund is governed by legal bond covenants for the District's revenue bonds. The District may withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Revenue Fund for application in accordance with an Installment Purchase Agreement.

***Board Designated Funds:***

Board designated funds are set to accomplish systematic and strategic goals or provide for prudent management of operations. The Board of Directors has complete discretion in the management and designation of self adopted funds. Such funds can be modified, transferred, or altered by Board action.

*1. Dam Self Insurance:*

The District shall make available $5 million for self-insurance of the Littlerock Dam as seed money for reconstruction under the terms of the agreement between Palmdale Water District, Littlerock Creek Irrigation District and Palmdale Water District Public Facilities Corporation. The money will be used to begin the reconstruction following the event as applications for FEMA reimbursement are in process.

2. *O&M Operating Reserve:*

The O&M Operating Reserve will vary over time with a goal of maintaining three (3) months average cash operating expenses of $5.6 million. This reserve is considered a working cash requirement. It bridges the gap between the time expenses are paid and the time revenues from the same service are collected from customers.

3. *O&M Emergency Reserve:*

The O&M Emergency Reserve will vary over time with a goal of maintaining three (3) months average cash operating expenses of $5.6 million. This reserve is considered a working cash requirement for use in an emergency situation.

4. *Unrestricted Reserves:*

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

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Palmdale Water District as follows:

Each fiscal year budget will report on the status of the reserve over the previous year and budget for proposed sources and uses for each reserve.

PASSED AND ADOPTED by the Board of Directors of the Palmdale Water District at a regular meeting held on this 13th day of November, 2013 by the following vote:

Ayes: Director Gordon Dexter, Director Gloria Dizmang, Director Robert Alvarado, Director Steve Cordova
Noes: None
Absent: President Kathy Mac Laren
Abstain: None

President, Board of Directors

ATTEST:

Secretary, Board of Directors