

RESOLUTION NO. 2015-10

**RESOLUTION OF THE
WEST VALLEY WATER DISTRICT BOARD OF DIRECTORS
AMENDING WATER SERVICE REGULATIONS ARTICLE 26, "RESERVE
POLICY"**

WHEREAS, the Board of Directors ("Directors") of the West Valley Water District ("District") intends that the District will at all times have sufficient capital available to meet its operating, equipment replacement, capital projects, and debt service payments; and

WHEREAS, the District desires to formalize its reserve policies with the requirements imposed by law for the handling of developer related fees; and

WHEREAS, the District desires to establish sound financial policies to promote favorable bond ratings in capital markets so that bonds may be used for the future financing of District projects; and

WHEREAS, the District desires to reserve capital for unanticipated and unforeseeable expenses;

WHEREAS, the District desires to establish a buffer should revenue estimates in any year not meet projections; and

WHEREAS, the Directors have been presented with a Reserve Policy in the form attached to this Resolution as Exhibit "A" and by this reference incorporated herein.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE WEST VALLEY WATER DISTRICT DOES HEREBY RESOLVE, DETERMINE, AND ORDER AS FOLLOWS:

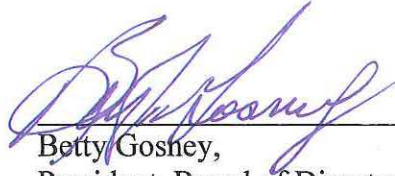
Section 1. The Directors hereby approve and adopt the Reserve Policy dated July 16, 2015, a copy of which is attached hereto as Exhibit "A."

Section 2. The Reserve Policy shall amend the District's Water Service Regulations as Article 26.

Section 3. This Resolution shall take effect immediately upon its adoption.

ADOPTED, SIGNED, and APPROVED this 16th day of July, 2015, by a roll call vote.

AYES:	DIRECTORS:
NOES:	DIRECTORS:
ABSENT:	DIRECTORS:
ABSTAIN:	DIRECTORS:



Betty Gosney,
President, Board of Directors

ATTEST:



Peggy Asche, Secretary

EXHIBIT “A”

WEST VALLEY WATER DISTRICT

RESERVE FUNDS POLICY

**Adopted
July 16, 2015**

**WEST VALLEY WATER DISTRICT
RESERVE FUNDS POLICY**

1. **Policy Statement**

A critical element of prudent financial planning is to ensure that sufficient funding is available for current and future operating, capital, and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. West Valley Water District (“District” or “WVWD”) will at all times strive to have sufficient funding available to meet its operating, capital, and debt service obligations. Reserve Funds (“Funds”) will be accumulated and maintained to allow the District to fund operating expenses and capital expenditures in a manner consistent with its Annual Operating and Capital Improvement Budgets and its long term Capital Improvement Program, respectively, and avoid significant customer rate fluctuations due to changes in cash flow requirements.

Through a variety of policy documents and plans, including the District’s Capital Improvement Program, master plan and strategic plan, the Board has set forth a number of long-term goals for the District. A fundamental purpose of the District’s policy documents and plans is to link what must be accomplished with the necessary resources to successfully do so.

The Board of Directors of WVWD (“Board”) may designate specific fund accounts and maintain minimum fund balances consistent with statutory obligations that it has determined to be in the best interest of WVWD. The Policy directives outlined in this document are intended to ensure WVWD has sufficient funds to meet current and future needs. The Board will annually review the level of Funds.

2. **Definitions**

There are three types of Funds:

- I. **RESTRICTED FUNDS:** Restrictions on the use of these funds are imposed by an outside source such as creditors, grantors, contributors, laws, or regulations governing use.
- II. **CAPITAL FUNDS:** Established by action of the Board and designated for specific purposes. This fund is utilized primarily to fund capital and asset costs, for both new and replacement projects.
- III. **LIQUIDITY FUNDS:** Established by action of the Board to safeguard the financial flexibility and stability of WVWD and is to maintain stable customer charges and rates from year to year. Liquidity may be funded from accumulated revenues and when appropriate available short-term liquidity arrangements.

3. General Provisions

The District may maintain its liquidity and capital funds in separate, designated sub-accounts in a manner that ensures its financial soundness and provides transparency to its ratepayers. The Fund balances are considered the minimum necessary to maintain the District's creditworthiness and adequately provide for:

- Compliance with applicable statutory requirements
- Financing of future capital facilities and repair and replacement of existing assets
- Cash flow requirements
- Economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy
- Contingencies or unforeseen operating or capital needs

In the context of funding future capital facilities and maintaining and replacing existing assets, in each instance, the District will analyze the benefits and tradeoffs of utilizing pay-as-you-go and/or debt financing and determine the optimal funding strategy or combination of funding strategies. The analysis should consider WVWD's current and projected liquidity, and capital positions, as well as the impact of inflation, the cost of water and other factors on the operations of the District and its capital improvement program. WVWD may from time to time measure its liquidity position by calculating "days cash" or other appropriate calculation of liquidity and its capital positions, as measured by its debt to equity ratio or other appropriate calculation of capital position.

WVWD has established and will maintain the following primary Funds and their respective sub-accounts:

- Restricted Funds – comprised of Bond Proceeds Fund, Community Facilities District Fund, Developer and or Capacity Fees and Customer Deposits
- Capital Funds – comprised of the Capital Project Account, and the Administrative & General Account
- Liquidity Funds –Rate Stabilization Account and the Operating Reserve Account, the Emergency Account, and the Water Banking Account

A principal tenet of this Reserve Fund Policy shall be the crediting of interest income to specific accounts until the respective account's maximum is achieved. Once the maximum balance is reached within a specific account, the surplus amounts, including interest earnings, will be reallocated to other accounts or reserve funds whose funding level is below the maximum requirement recommended by this Policy. If at the end of any fiscal year, moneys on deposit in all accounts or reserve funds are at or exceed their respective maximum amounts or levels, the District may consider rebating surplus amounts to its ratepayers. For purposes of investment, the District may commingle unrestricted accounts and reserve funds, so long as the District's Investment Policy permits such.

Account balances shall be reviewed on a semi-annual basis at, or near, the mid-fiscal year and the end of the fiscal year to ensure compliance with this Policy. In the event the Liquidity Fund balance exceeds the established aggregate maximum, excess monies will be transferred annually into the Capital Funds. On an as-needed basis, moneys from the Emergency Account of the Liquidity Fund can be moved to the Operating Reserve Account to pay for operating emergencies to supplement the Liquidity Funds.

The minimum established for each Fund represents the baseline financial condition that is acceptable to WVWD from risk and long-range financial planning perspectives. Maintaining reserves at appropriate levels is a prudent, ongoing business process that consists of an iterative, dynamic assessment and application of various revenue generating alternatives. These alternatives (either alone or in combination with each other) include, but are not limited to: fees and charges, water usage management, capital financing, investment of funds, and levels of capital expenditures.

To establish and preserve its strong credit ratings, in every fiscal year WVWD will strive to maintain a Liquidity Fund balance totaling a minimum of 75 days of budgeted operating expenses without regard to any Liquidity Facility.

The Board shall approve any reallocation of funds or any transfers among Funds.

4. **Fund Target Levels and Management**

I. RESTRICTED FUNDS

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

Target Level – The debt service reserve requirement is established at the time of the bond issue. This amount may be recalculated as the bonds are paid down. Any excess principal and/or interest earnings can be used to pay debt service on the appropriate bonds.

Events or Conditions Prompting the Use of the Fund(s) – As stipulated in the respective bond documents. Construction fund monies are expected to be spent on applicable projects, while DSRF can only be used in the event of a shortfall in revenues to pay debt service or to pay down principal at maturity.

Review Dates for Balances – Reviewed by the Trustee and WVWD staff on a semi-annual basis at least 15 days prior to an interest payment date.

- b. Customer and Development Deposits: Monies held on behalf of WVWD customers as required for their account or as cash bonds for development projects.

Target Level – Customer deposits required are based upon the process outlined in the District’s Water Service Regulations.. Deposit requirements for development projects are also outlined in the District’s Water Service Regulations. The balance in this account will fluctuate depending on the number of utility customer deposits required and the number of development projects in process. Therefore, no minimum or maximum levels will be established.

II. CAPITAL RESERVE FUNDS

WVWD will strive to maintain minimum balances in the Capital Reserve Funds, net of any capacity fees, as of June 30, of any fiscal year equal to the amounts set forth below. The Capital Reserve Funds will consist of the following sub-accounts:

- a. Capital Project Account: The Capital Project Account is used for the funding of new capital assets or the rehabilitation, enhancement or replacement of capital assets when they reach the end of their useful lives.

Target Level – WVWD may set aside capital moneys for replacement funds on a project-by-project basis. The minimum target level WVWD will strive for is 100% of its then-current fiscal year from the Capital Improvement Budgets plus 80% of the amount estimated to be needed the following fiscal year. Failure to meet the minimum target level will not result in a violation of the policy. The maximum balance may be determined upon the reasonable needs of the District as set forth in the Capital Improvement Program, the District’s Master Plan Documents and Strategic Plan. }

Events or Conditions Prompting the Use of the Fund – Staff will recommend new assets to be constructed or assets to be rehabilitated, enhanced, or replaced during the annual budget preparation. As projects are approved, funds will be appropriated from reserve funds or available revenues.

Review Dates for Balances – Fund balances and projected improvement projects will be reviewed by staff and the Board during the preparation and approval of the annual budget and during the mid-year budget review process.

- b. Administrative & General Account: The Administrative & General Account can be used to fund certain general, administration and overhead projects. It is intended to fund (or partially fund) short lived assets such as offices fixtures and furnishings, vehicles and equipment on a pay-as-you-go basis. The Board will appropriate funds for specific projects.

Target Level – This Account has no specific target level for each component. However, WVWD shall seek to maintain a minimum balance equal to 5% of its annual operating expenses. Special projects can be funded on an as-needed or project-by-project basis.

Events or Conditions Prompting the Use of the Fund – Improvement projects will be identified by staff and recommended to the Board during the preparation of the annual budget. As projects are approved, funds will be appropriated from available revenues.

Review Dates for Balances – Fund balances and projected improvement projects will be reviewed by staff and the Board during the preparation and approval of the annual budget and during the mid-year budget review process.

III. LIQUIDITY FUNDS

Liquidity Funds will be comprised of the following sub-accounts: the Rate Stabilization Reserve Account and the Operating Reserve Account. The balance in the Liquidity Funds will fluctuate depending on the annual operating expenses.

- a. Rate Stabilization Account: This fund is established to provide flexibility to the Board when setting rates to allow for absorbing fluctuations in water demand and smoothing out rate increases over a period of time.

Target Level – This fund shall be maintained at a minimum level equal to 5% of water sales, a target amount equal to 15% of water sales, and a maximum of 25% of water sales.

Events or Conditions Prompting the Use of the Fund – This fund is intended to be used to defray any temporary unforeseen decreases in the sale of water. The Board, on a case by case basis, will determine the amount and timing for any use of the fund. If at the end of any fiscal year, moneys on deposit in all accounts or reserve funds are at or exceed their respective maximum amounts or levels, the District may consider rebating surplus amounts to its ratepayers.

Review Dates for Balances – Fund balances will be reviewed by staff and the Board during the preparation and approval of the annual budget and during the mid-year budget review process.

- b. Operating Reserve Account: The Operating Reserve Account is used for unanticipated operating expenses. This fund is designated by the Board to maintain a reserve for current operations and to meet routine cash flow needs.

Target Level – Funding shall be targeted at a minimum amount equal to 60 days of the District's budgeted total operating expenses, a target amount equal to 120 days of the budgeted total operating expenses and the maximum amount shall not exceed 180 days of the budgeted total operating expenses.

Events or Conditions Prompting the Use of the Fund – Upon Board authorization, this fund may be routinely utilized by staff to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses or decreases in revenues and unexpected increases in expenses.

Review Dates for Balances – Fund balances and target level will be reviewed by Staff and the Board during the preparation and approval of the annual budget and during the mid-year budget review process.

- c. Emergency Account. The Emergency Account may be used to purchase water at any time or to begin repair of the water system after a catastrophic event, such as a severe earthquake, drought, or fire while interim, or long-term financing is being arranged or insurance claims are being processed. WVWD may use funds herein for either capital or operating purposes.

Target Level – Funding shall be targeted at a minimum equal to 1% of the net capital assets of the District’s water system, a target level of 2% of the net capital assets and a maximum of 3% of the net assets of the water system, based on current Federal Emergency Management Agency (FEMA) guidelines.

Events or Conditions Prompting the Use of the Fund – The Board may designate use of this fund after establishing that conditions exist as called out in the definition and purpose of the fund.

Review Dates for Balances – Fund balances and target level will be reviewed by staff and the Board during the preparation and approval of the annual budget and during the mid-year budget review process.

- d. Water Banking Account. The Water Banking Account can be used to fund the purchase of replenishment water for future use. The District will strive to maintain a minimum level equal to the cost of 1,000 acre-feet of water and a maximum amount equal to the cost of 10,000 acre-feet of water. The current cost of water to the District is \$125. The District will review annually the cost to purchase water.

Target Level. Funding shall be targeted at a minimum equal to \$125,000 and a maximum of \$1,250,000 plus any additional amount due to any increase in the price of water.

Review Dates for Balances – Fund balances and target level will be reviewed by staff and the Board during the preparation and approval of the annual budget and during the mid-year budget review process.

5. **Investment Guidelines**

Maintaining a balance between debt and pay-go sources may provide an added benefit to WVWD in terms of allowing for a more optimal investment strategy. In the context of these policies and in circumstances where such balance is present, the investment portfolio can be

separated into short and long portfolios to maximize investment returns. The balance in the Restricted Funds and the Liquidity Funds may be kept invested in short-term instruments. Moneys in the Capital Funds, however, may be invested for a longer horizon as the funds are needed in later years.

6. **Delegation of Authority**

The Board has sole authority to amend or revise the Reserve Funds Policy. Through approval of this Policy, the Board has established written procedures for staff to follow in the management of the District's Reserve Funds.

Conceptual Structure

Reserve Fund Description	Minimum Guidelines	Target Balance Guidelines	Maximum Guidelines	Events or Conditions Prompting Use of Fund
Operating Reserve Account	60 days of the District's budgeted total operating expenses	120 days of the District's budgeted total operating expenses	180 days of the total budgeted operating expenses	To cover temporary cash flow deficiencies and extraordinary decreases in revenues and unexpected increases in expenses
Emergency Account	1% of the net capital assets of the District's water system	2% of the net capital assets of the water system	3% of the net capital assets of the water system	Used for conditions that exist as an "emergency"
Water Banking Account	\$125,000	NA	\$1,250,000	Used to fund potential water purchases
Rate Stabilization Account	5% of the budgeted amount of water sales revenue	15% of the budgeted amount of water sales revenue	25% of the budgeted amount of water sales	Fund will be drawn down to smooth rate increases as authorized by the Board during rate-setting and/or budget process
Capital Project Account	100% of the current fiscal year capital budget (excluding capacity fees), plus 80% estimated capital budget for the next fiscal year	NA	NA	Used for recommended construction, replacement, upgrades and/or repairs
Administrative & General Account	5% of the estimated Operating Expenses	5% of the estimated Operating Expenses	5% of the estimated Operating Expenses	Recommended for new short-term assets