



VALLEY OF THE MOON WATER DISTRICT

RESERVE POLICY

The purpose of the Valley of the Moon Water District (District) Reserve Policy is to ensure that the District will at all times have sufficient funding available to meet its operating, capital, and debt service cost obligations. Reserves will be managed in a manner that allows the District to fund costs consistent with its annually updated Five Year Capital Improvement Program while avoiding significant rate fluctuations due to changes in cash flow requirements.

Adequate reserves and sound financial policies promote the District's bond ratings in the capital market, if and when the District resorts to bond financing; provide financial flexibility, avoid potential restrictive debt covenants; and ensures District customers of stable rates.

Reserve Fund Types

There are three major types of reserve funds: Legally Restricted Reserves, Board Designated Reserve, and Unrestricted / Undesignated Reserves. Legally Restricted Reserves have restrictions imposed by an outside source, such as bond covenants, contractual obligations, etc. Board Designated Reserves are set aside for a specific purpose as determined by the Board of Directors. The Board of Directors has the authority to redirect the use of these reserves as the needs of the District change. Unrestricted / Undesignated Reserves are planned for use in each update of the Capital Improvement Program to assist the District in avoiding significant rate fluctuations.

Legally Restricted Reserves

The District does not currently have any Legally Restricted Reserves. Capacity fee revenues, while legally restricted funds, are not reserves and are intended to be used to expand system capacity through the installation or expansion of larger mains, pumps, and storage facilities and the addition of water sources via the District's Capital Improvement Program.

Board Designated Reserves

The Board has designated the following reserves:

Operations & Maintenance Reserve: This reserve is established to retain sufficient funds for emergency operations in the event of an emergency incident such as fire, earthquake, major system failure, drought, flooding, etc. The District shall maintain this reserve equal to three average months of the annual operations and maintenance budget or \$1,000,000 whichever is higher.

Rate Stabilization Reserve: This reserve is established to help buffer revenue instability as a result of drought, disaster, economic downturn, etc. The target funding level of this reserve is one-month of rate revenue based on the average projected month or \$500,000 whichever is higher.

Capital Improvement Program Reserve: This reserve is established to fund the five-year Capital Improvement Program. This reserve is intended to be used by staff to meet cashflow needs during construction; its balance may therefore vary as the fiscal year progresses. The target funding level of this reserve is based on three percent (3%) of asset values, or 800,000 whichever is higher. No funds from this reserve shall be spent on capital improvements that are not delineated in the approved budget.

At the beginning of each fiscal year, the Board shall set reserve targets for each of the foregoing designated reserves in the annual budget.

Unrestricted / Undesignated Reserves

The District does not intend to accumulate an Unrestricted / Undesignated Reserve. However, they may be accumulated as a result of stronger water sales than anticipated, the sale of assets, etc. If these funds are accumulated, they will be used in the update of the District's Capital Improvement Program and will be drawn down over time to smooth rate increases where practicable.

Reserve Reporting

Each month, District staff shall report current funding levels to the Board in the monthly Report of Investments and Reserves.