

## RESOLUTION NO. 23-15

### 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. 18-10) and establishes the Palmdale Water District Reserve Policy as follows:

#### ***Legally Restricted Funds:***

The Capital Improvement Fees, as modified by District Resolution No. 18-14, 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). These funds are deposited in the Capital Improvement Fund described below. 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. Other legally restricted funds, including bond proceeds funds, reserve funds, or rate stabilization funds, are described below.

#### ***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. 18-14 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 or similar indebtedness like a private placement loan, certificate of participation or other indebtedness instrument. 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 bondholders. These funds should be tracked and accounted for in accordance with the bond documents and to ensure, if applicable, the tax-exempt nature of the applicable bonds. These funds shall also be invested as provided in the bond documents.

## *3. Debt Service Reserve Fund:*

The requirements for a Debt Service Reserve Fund (DSRF) are governed by the bond covenants for the District's debt. Bond covenants may require a DSRF to be maintained at a level sufficient to fund maximum annual debt service payments or such other requirements of the governing legal documents.

If funding a DSRF using bond proceeds is determined to be necessary or in the District's best interest, the DSRF will typically be held by the trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. Annual interest earnings on a DSRF shall be applied to each year's debt service payments or as otherwise required by the bond documents.

The DSRF requirement may also be satisfied by a surety policy, a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issuance. Under this arrangement, instead of depositing cash in a DSRF, the District purchases a reserve fund insurance policy (surety) by paying a one-time premium equal to a percentage of the face amount of the policy. The District may use a surety policy instead of a debt service reserve fund when economically feasible.

## *4. Rate Stabilization Fund:*

The District will draw on Rate Stabilization Funds to maintain financial performance indicators and goals specified in legal bond covenants and monitored by financial rating agencies. Included among these indicators and goals is the maintenance of a strong debt service coverage ratio and a target Rate Stabilization Fund balance equal to 20% of maximum annual debt service, with a maximum Rate Stabilization Fund balance of

\$2,500,000. Withdraw all or any portion of the amounts on deposit in the Rate Stabilization Fund and transfer such amounts to the Water Revenue Fund to maintain minimum required debt service coverage.

***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 an event during the time applications for FEMA reimbursement are in process following an event.

*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 25% of the prior audited year for the current year (Refer to Table A as reference). 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 25% of the prior audited year for the current year (Refer to Table A as reference). 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 23<sup>rd</sup> day of October, 2023 by the following vote:

Ayes: President Wilson, Directors Kellerman, Mac Laren-Gomez, Dino

Noes:

Absent: Director Dizmang

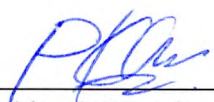
Abstain:

  
\_\_\_\_\_  
President, Board of Directors

ATTEST:

  
\_\_\_\_\_  
Secretary, Board of Directors

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Aleshire & Wynder, LLP

**PALMDALE WATER DISTRICT**  
**Audited O&M Expenses - Reserve Policy Calculation**  
**Table A (Updated: October 17, 2023)**

<b>Year</b>	<b>O&amp;M Expense (Audited)</b>	<b>Calculated Reserve (25%)</b>
2019	\$ 25,091,896	\$ 6,272,974
2020	\$ 25,282,387	\$ 6,320,597
2021	\$ 28,491,804	\$ 7,122,951
2022	\$ 26,501,941	\$ 6,625,485