

Sacramento Suburban Water District

Reserve Policy

Adopted: August 18, 2003

Revised: September 20, 2004; August 21, 2006; August 18, 2008

100.00 Purpose of the Policy

This document sets forth the policy of the Sacramento Suburban Water District concerning its contingency reserve requirements. This policy rescinds all existing policies regarding District contingency reserves.

In order to assure itself of available cash for District business purposes, and in order to operate the District in a prudent, safe and sound manner, the District believes that a certain portion of its cash should be held in reserve. Further, the District recognizes that it has certain contractual, legal or other requirements to reserve cash and/or District capital, including debt covenants, in order to satisfy specific claims on District assets or the District's earning ability. Therefore, the District has established a four-tier reserve requirement to meet such contingencies and claims – (1) an operational reserve requirement; (2) a capital asset replacement reserve requirement; (3) a debt service reserve requirement; and (4) an interest rate risk management reserve requirement.

200.00 Policy**200.10 Operational Reserve Requirement**

The District intends to have enough cash and cash equivalents on reserve to avoid borrowing due to contingent disruptions that may occur in its revenue streams or that may occur due to large unexpected expenditure requirements, such as self-insured events. Therefore, the District shall have on reserve in its operational fund short-term investments and cash equal to twenty-five percent (25%) of its anticipated (budgeted) annual expenditures for operating costs and debt service expenditures at all times.

Intent of reserve account

In the case of operational reserves, it is intended that such an amount serve as a floor or minimum level below which the District will not operate except in times of severe economic distress.

200.20 Capital Asset Replacement Reserve.

The District recognizes that its capital assets must eventually be replaced. As the cost of replacing capital assets can be significant and because cash outlays for such assets can occur irregularly, the District desires that ratepayers fund a portion of these future cash outlays on a regular (pay-as-you-go) basis. Further, the District also recognizes that the cost and eligibility to borrow funds when needed are driven by market conditions that may or may not be advantageous or available to the District at the time asset replacement is needed. Therefore, in order to mitigate or eliminate the need to fund the replacement of capital assets through borrowing, the District shall reserve a percentage of its annual revenues as determined by staff and approved by the Board in accordance with the estimated present value of expected future replacement costs for existing capital assets spread over the assets expected useful lives. Further, all unspent cash not required for any approved capital project or used in any accounting period shall be attributed to the capital fund balance.

Intent of reserve account

The capital asset replacement fund reserve is intended to be a reserve financed by facility development charges, capital replacement charges, and any remaining unused budgeted costs not spent on budgeted items.

200.30 Bond Indebtedness Reserve.

The District recognizes that borrowing long-term funds for the purpose of enhancing, improving or acquiring infrastructure and facilities may at times be necessary. When the District determines that borrowing is necessary to fund such asset acquisitions, then all funds borrowed shall be accounted for in accordance with the covenants, terms and conditions as set forth in the bond indenture agreement, certificate of participation official statement or such similar documents. Additionally, all proceeds received from such issuances shall be maintained in bank or investment accounts separately from all other District reserves and accounts or as otherwise provided in the applicable indebtedness documents.

Intent of reserve account

Bond indebtedness reserves are intended to serve two purposes. The first is to separately account for bond proceeds; making sure expenditures of such proceeds are made in accordance with the borrowing terms. The second purpose is to establish a reserve for the repayment of principal and interest on borrowed funds. Financing for this debt repayment fund will be from debt service charges (also known as capital facilities and infrastructure replacement charges) collected from District ratepayers.

200.40 Interest Rate Risk Management Reserve Requirement

The District may at times enter into financial transactions that create interest rate risk, such as variable rate debt. To the extent the District needs to invest funds for the purpose of managing interest rate risk, it shall hold in its total reserve balance an

amount sufficient to manage the assumed risk. Such reserves will comprise reserves defined above.

300.00 Policy Review

This Policy shall be reviewed at least biennially.