

RESOLUTION NO. 2009-2

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN GORGONIO PASS WATER AGENCY REVISING A POLICY FOR AGENCY RESERVES

(RESCINDING RESOLUTION NO. 2007-16)

WHEREAS, this Board is charged with responsibility for providing an imported water supply to customers located within the Agency's boundaries, for the construction, operation, maintenance, repair and replacement of facilities to transport and deliver that water to Agency customers, and for the collection and accumulation of revenues necessary to accomplish these purposes; and

WHEREAS, the implementation of Board policy over a period of many years has resulted in the accumulation of funds to be utilized for a variety of Agency activities and to protect the Agency's customers and taxpayers from the financial impacts of catastrophic events and from fluctuations in Agency expenses; and

WHEREAS, by separate action this Board has created a restricted fund for the deposit and separate accounting of Agency revenues which may be expended only for particular Agency purposes, entitled the "State Water Contract Fund" and

WHEREAS, in addition to the collection and deposit of money into the restricted account, this Board also wishes to provide for the creation of certain unrestricted reserve accounts, and to set forth in writing the Agency's policy regarding the accumulation of reserves, the purposes for which they may be expended, and the levels which the Agency should strive to maintain;

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of the San Gorgonio Pass Water Agency hereby provides for the deposit of revenue into the restricted fund, the creation of certain unrestricted reserve accounts, and the accumulation and administration of reserves in each, as follows:

1. Restricted Reserves.

(a) State Water Contract Fund. All revenue collected from taxes levied on real property within the Agency's boundaries to pay amounts due and owing to the State of California Department of Water Resources ("DWR") pursuant to the Agency's contract with the State ("State Water Contract") for participation in the State Water Resources Development System shall be deposited into the State Water Contract Fund. The revenues deposited into the State Water Contract Fund may be utilized only to pay the Agency's financial obligations on the State Water Contract. The Agency shall endeavor to maintain money in the State Water Contract Fund in an amount which is more than the total of the previous year's invoices from DWR, but not more than two and one half times the total of such invoices, so that a reserve may be maintained to absorb temporary increases in charges from DWR, help to stabilize Agency tax rates, and protect against economic conditions which could result in the failure of numerous Agency taxpayers to pay their taxes. The reserves maintained in the State Water

Contract Fund may be invested in the same manner as other Agency funds. Investment earnings thereon as determined by the Agency shall be credited to the State Water Contract Fund and shall be used only to pay State Water Contract obligations.

2. Unrestricted Reserves.

(a) Reserve for Operations. A "Reserve for Operations" is hereby created for the Agency, to which the Board may appropriate unrestricted Agency revenues. The Reserve for Operations may be utilized to pay the cost of operating the Agency's general system including unanticipated costs of operations. The Agency shall endeavor to maintain in the Reserve for Operations an amount sufficient to pay for six months of normal operations of the Agency excluding depreciation expense and payments to DWR not to exceed one year of normal operation, as reflected in the annual audit of the Agency presented to the Board each year. However, the funds appropriated to the Reserve for Operations may be accessed at any time for any other Agency purpose, upon approval by the Board. Funds appropriated to the Reserve for Operations may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Agency's General Fund.

(b) Reserve for New Infrastructure. A "Reserve for New Infrastructure" is hereby created for the Agency's general account, to which the Board may appropriate unrestricted Agency revenues. The Reserve for New Infrastructure may be utilized to construct or procure new infrastructure for the Agency; expenditures include but are not limited to transmission and distribution capital assets, buildings, pumping equipment, technical equipment, furniture and fixtures and transportation equipment. The Agency shall endeavor to maintain the Reserve for New Infrastructure in an amount approximately equal to 20% of the original cost of the Agency's physical plant, as reflected in the annual audit of the Agency presented to the Board each year. However, the funds appropriated to the Reserve for New Infrastructure may be accessed at any time for any other Agency purpose, upon approval by the Board. Funds appropriated to the Reserve for New Infrastructure may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Agency's General Fund.

(c) Reserve for Additional Water. A "Reserve for Additional Water" is hereby created to which the Board may appropriate unrestricted Agency revenues. The Reserve for Additional Water may be utilized for the temporary purchase of additional water, to augment the Agency's annual allocation of water pursuant to Table A of the Agency's State Water Contract, and for costs associated with the banking or transfer of any water or water rights purchased by the Agency. The Agency shall endeavor to maintain the Reserve for Additional Water in an amount of at least \$2.5 million as of June 30, 2008, with a goal of increasing this amount at least \$250,000 per year thereafter. This reserve fund is to be augmented by income from the "new water" component of the water rate, to be set by the Board. Funds added to this reserve from the water rates shall

not be used for any purpose other than to purchase new water or water rights. It is anticipated that other funds will also be added to this reserve. The funds initially appropriated to the Reserve for Additional Water (\$2.5 million) and funds from sources other than the water rate may be accessed at any time for any other Agency purpose, upon approval by the Board. Funds appropriated to the Reserve for Additional Water may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Agency's General Fund.

(d) Rate Stabilization Reserve. A "Rate Stabilization Reserve" is hereby created, to which the Board may appropriate unrestricted Agency revenues. The Rate Stabilization Reserve may be utilized to protect Agency ratepayers from temporary increases in the cost of providing water service, such as fluctuations in the cost of energy, for example. The Agency shall endeavor to maintain the Rate Stabilization Reserve in an amount equal to \$150,000, or approximately 150% of the maximum annual revenue shortfall year identified in the February 2, 2009 water rate study. This reserve fund is to be augmented by income from the rate stabilization component of the water rate, to be set by the Board. As the initial \$150,000 allocated to this fund as of February 2, 2009 is augmented by funds from water rates, these initial funds shall be allocated to other reserve funds as needed. Funds added to this reserve from the water rates shall not be used for any purpose other than stabilizing or subsidizing the water rate. However, if at any time the funds accumulated in this reserve fund from the rate stabilization component of the water rate reach the goal of \$150,000, additional funds earmarked for this reserve above \$150,000 shall be allocated to the reserve for new water until such time as the rate stabilization reserve fund is reduced below \$150,000. At that time, revenue from the rate stabilization fund portion of the water rate will again be allocated to the rate stabilization reserve fund until such time as it reaches \$150,000. Funds appropriated to the Rate Stabilization Reserve may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Agency's General Fund.

(e) Reserve for Replacements. A "Reserve for Replacements" is hereby created for the Agency's general account, to which the Board may appropriate unrestricted Agency revenues. The Reserve for Replacements may be utilized to replace the Agency's physical plant, as needed. The Agency shall endeavor to maintain the Reserve for Replacements an amount approximately equal to the accumulated amount of depreciation of the Agency's physical plant (not including the State Water Project facilities), as reflected in the annual audit of the Agency presented to the Board each year. However, the funds appropriated to the Reserve for Replacements may be accessed at any time for any other Agency purpose, upon approval by the Board. Funds appropriated to the Reserve for Replacements may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Agency's General Fund.

(f) Reserve for Unexpected Legal Expenses. A "Reserve for Unexpected Legal Expenses" is hereby created, to which the Board may appropriate unrestricted Agency revenues. The Reserve may be used to pay unexpected

legal expenses incurred by the Agency, such as for planned or unplanned litigation, pending litigation, threatened litigation, or other such legal expenses as may be incurred. The Agency shall endeavor to maintain in the Reserve at least \$150,000, not to exceed \$250,000. However, the funds appropriated to the Reserve for Unexpected Legal Expenses may be accessed at any time for any other Agency purpose, upon approval by the Board. Funds appropriated to the Reserve for Unexpected Legal Expenses may be invested in the same manner as other Agency funds, and the earnings thereon shall be credited to the Agency's General Fund.

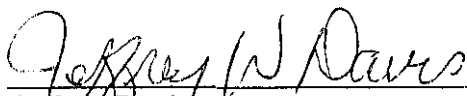
3. Additional Reserves. In addition to the reserves identified above, the Board may approve the creation of such additional accounts, whether temporary or permanent, as the Board deems necessary or appropriate, by amendment to this resolution or by simple motion. In such event, the Board will identify the purposes for which such additional accounts are created, provide guidance as to the amount which the Agency should endeavor to maintain in each such fund or account, and establish the limits and restrictions pertaining thereto.

4. Annual Reports. Each quarter the Agency's General Manager shall provide the Board with a report indicating the beginning and ending balance for each of the reserve funds or accounts created pursuant to this resolution and the purposes for which expenditures have been made there from, and shall make recommendations to replenish or augment fund or account balances as appropriate.

5. Concurrent Adoption of Water Rates Resolution. This Resolution revising the policy for the accumulation of the Agency Reserves is dependent on the concurrent adoption of Resolution No. 2009-3, which establishes wholesale water rates.

The foregoing resolution was adopted unopposed by voice vote at a regular meeting of the Board of Directors of the San Geronio Pass Water Agency on February 2, 2009 with all Directors present.

I certify that this is a true, full and correct copy Resolution 2009-02, approved by the Board of Directors of the San Geronio Pass Water Agency at its meeting held on February 2, 2009.



Jeffrey Davis
Secretary of the Board