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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

SEP 12 1995

Darwin E. Smith
EXECUTIVE SECRETARY

August 8, 1995

REVISED: August 28, 1995

To: Board of Directors (Finance and Insurance Committee--Action)
From: General Manager
Subject: Long Range Finance Plan - 1995 Update

RECOMMENDATIONS:

It is recommended that the Board of Directors:

1) Adopt the financial goals and objectives contained in the Long Range Finance Plan in concept;

2) Reaffirm the policy of maintaining working capital of \$175 million, subject to annual review of adequacy, and authorize the transfer of \$25 million, currently held in excess of the \$175 million, to the Pay-As-You-Go Fund, for the purpose of financing pay-as-you-go capital expenditures in accordance with the Board's policy as stated in Administrative Code Section 5109;

3) Establish a cap of \$200 million for the Water Rate Stabilization Fund, and determine that available monies that exceed the cap shall be placed into the Pay-As-You-Go Fund for the purpose of financing pay-as-you-go capital expenditures in accordance with the Board's policy as stated in Administrative Code Section 5109;

4) Authorize an increase in annual pay-as-you-go expenditures in an amount equal to the transfers to the Pay-As-You-Go Fund authorized in Recommendations 2 and 3, above;

5) Establish the Water Transfer Fund, and authorize the transfer of the \$14 million budgeted for 1995-96 water transfers as the initial deposit into the fund; provide that the Water Transfer Fund shall be used only for the purposes of funding water transfer programs and the costs of filling the completed Domenigoni Valley Reservoir Project; and designate the expiration date for the Water Transfer Fund as June 30, 2004.

6) Authorize the General Manager to purchase Metropolitan bonds, subject to a maximum purchase price of 100 percent of par value, without regard to maturity dates of the bonds, in an aggregate amount not to exceed \$75 million. Under current tax regulations, such bonds purchased by Metropolitan must be canceled and retired and may not be held for investment or resold. This authorization will be valid for a period of 12 calendar months following the month of adoption;

7) Amend the District's Administrative Code by adopting the language contained in Attachment A, to effect Recommendations 2 and 5, and make conforming changes to related Code sections; and

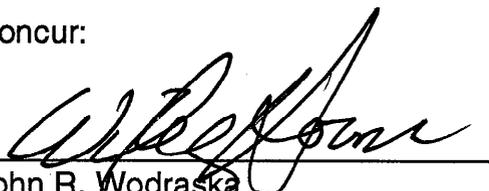
8) Find that the proposed actions are exempt from the provisions of the California Environmental Quality Act since they constitute the creation of government funding mechanisms which do not involve commitment to any specific project.

John R. Wodraska
General Manager

Submitted by:


Lambertus H. Becker
Chief Financial Officer

Concur:


John R. Wodraska
General Manager

EXECUTIVE SUMMARY:

The 1995 update of the District's Long Range Finance Plan was transmitted to your Board with the pending version of this letter dated August 5, 1995.

The recommendations in the plan, and additional recommendations to effect Administrative Code changes and make an environmental finding, are shown above. Recommendation 1 is that the Board of Directors adopt the financial goals and objectives contained in the Long Range Finance Plan in concept.

Recommendation 2 is for the Board to reaffirm its formal working capital policy, as contained in the Administrative Code, to maintain working capital of \$175 million. The additional \$25 million currently being held as working capital would be transferred to the Pay-As-You-Go Fund.

Recommendation 3 is to cap the Water Rate Stabilization Fund (WRSF) at \$200 million and transfer amounts in excess of the cap to the Pay-As-You-Go fund. The \$200 million is estimated to be sufficient to mitigate rate increases for the next three to five years. Transferring the additional funds to the Pay-As-You-Go Fund will bring the overall program closer to the Board's established policy of funding 20 percent of the Capital Improvement Program from current revenues.

Recommendation 4 is to authorize increased pay-as-you-go expenditures during years when transfers occur to the Pay-As-You-Go Fund in accordance with Recommendations 2 and 3 in this letter.

Recommendation 5 is to establish the Water Transfer Fund, and authorize the transfer of the \$14 million budgeted for 1995-96 water transfers as the initial deposit into the fund; provide that the Water Transfer Fund shall be used only for the purposes of funding water transfer programs and the costs of filling the completed Domenigoni Valley Reservoir Project; and designate the expiration date for the Water Transfer Fund as June 30, 2004.

Recommendation 6 is to authorize the General Manager to purchase Metropolitan bonds in the secondary market, subject to certain conditions.

Recommendation 7 is to amend the Administrative Code to effect Recommendations 2 and 5, and make conforming changes in related Code sections.

Recommendation 8 makes a finding that the recommended actions in this letter are exempt from the California Environmental Quality Act.

DETAILED REPORT:

The 1995 update of the District's Long Range Finance Plan was transmitted to your Board with the pending version of this letter dated August 5, 1995. The 1995 update has been coordinated with the Integrated Resource Planning (IRP) process and review of the District's Capital Improvement Program (CIP). The plan presents a comprehensive strategy for financing the operating and capital programs of the District in an efficient and economical manner using the financial tools legally available. Detailed cost, revenue and rate projections are included to show the effects of the financing strategy within the context of the District's overall financial operations. The overall goal of the District's financial planning is to maintain flexibility to deal with changing conditions within a framework of solid financial policies.

The Long Range Finance Plan is a dynamic document to be updated on a regular basis as financial conditions change. To facilitate this objective, the plan format has been changed. The report has been distributed in 3-ring binders with clearly segmented chapters that can be easily replaced. Periodically, chapters will be individually updated and distributed to keep the report current on an ongoing basis. New chapters covering historical, current and future areas of financial information will be developed so that the Long Range Finance Plan will continue to be a comprehensive reference manual covering all aspects of the District's finances.

The 1995 update covers the following subjects:

- Executive Summary and Recommendations
- Summary of Previous Long Range Finance Plan Recommendations and Actions
- Operating Projections
- Reserve Policies
- Internally Funded Construction
- Debt Management
- Investments
- Capital Financing Strategy
- Appendices

The recommendations in the plan, and additional recommendations to effect Administrative Code changes and make an environmental finding, are shown above.

Recommendation 1 is that the Board of Directors adopt the financial goals and objectives contained in the Long Range Finance Plan in concept.

Recommendation 2 is for the Board to reaffirm its formal working capital policy, as contained in the Administrative Code, to maintain working capital of \$175 million. Chapter 3 of the plan shows the analysis that was done to determine that the \$175 million level was sufficient. The main factor in this determination was the implementation of the new revenue structure. The new sources of firm revenues will decrease the District's reliance on variable water revenues and thereby reduce the previously projected need to increase working capital. The additional \$25 million currently being held as working capital would be transferred to the Pay-As-You-Go Fund.

Recommendation 3 is to cap the Water Rate Stabilization Fund (WRSF) at \$200 million and transfer amounts in excess of the cap to the Pay-As-You-Go fund. The \$200 million is estimated to be sufficient to mitigate rate increases for the next three to five years. Transferring the additional funds to the Pay-As-You-Go Fund will bring the overall program closer to the Board's established policy of funding 20 percent of the Capital Improvement Program from current revenues.

Recommendation 4 is to authorize increased pay-as-you-go expenditures during years when transfers occur to the Pay-As-You-Go Fund in accordance with Recommendations 2 and 3 in this letter.

Recommendation 5 is to establish the Water Transfer Fund, and authorize the transfer of the \$14 million budgeted for 1995-96 water transfers as the initial deposit into the fund; provide that the Water Transfer Fund shall be used only for the purposes of funding water transfer programs and the costs of filling the completed Domenigoni Valley Reservoir Project; and designate the expiration date for the Water Transfer Fund as June 30, 2004. The expiration date would generally coincide with completion of the reservoir fill, and it is felt the need for the Water Transfer Fund will be greatly reduced at that point. However, it may be necessary to re-establish the fund in later years as water demands continue to increase.

Recommendation 6 is to authorize the General Manager to purchase Metropolitan bonds in the secondary market, subject to the following conditions:

- Maximum purchase price not to exceed 100 percent of par value.
- Without regard to maturity dates of the bonds.
- Aggregate amount of this authorization not to exceed \$75 million.
- Purchased bonds must be canceled and retired, and may not be held for investment or resold.

- The authorization is valid for 12 calendar months, following the month of adoption.
- A report will be made to the Board in the month following use of this authority.

Recommendation 7 is to amend the Administrative Code to effect Recommendations 2 and 5, and make conforming changes in related Code sections. The new Code language is contained in Attachment A. Attachment B shows the recommended changes using underlines for new language and strikeouts for deleted language.

Recommendation 8 makes a finding that the recommended actions in this letter are exempt from the California Environmental Quality Act since they constitute the creation of government funding mechanisms which do not involve commitment to any specific project.

Attachment A

§ 5109. Pay-As-You-Go Funding.

To preserve debt capacity for evolving or unexpected financial needs, the Board's objective shall be to fund on a pay-as-you-go basis 20 percent of capital program expenditures of the District, including the costs of:

- (a) Capital facilities or projects totaling \$1,000,000 or less.
- (b) Capital assets with estimated payback periods or useful lives shorter than the calculated average life of alternative long-term bond financing.
- (c) Capital improvement program studies.
- (d) Other lawful purposes as determined by the Board.

The costs relating to provisions (a) through (d) above shall be paid from operating revenues, including revenues derived from water standby or availability service charges or benefit assessments, and proceeds from disposals of surplus property made available for expenditure by the Board in the Pay-As-You-Go Fund.

§ 5200. Funds Established.

To provide for accountability of public moneys in accordance with applicable federal and state law and regulations, bond covenants, tax and non-arbitrage certificates, bond counsel letters of instruction and Board policies, the following funds active or prospectively active have been established in the Treasury of the District:

- (a) General Fund (Fund No. 01, established 1929). Moneys not specifically allocated or appropriated may be placed in this fund and used for general purposes of the District. Expenditures for reimbursable work and water conservation capital and indirect costs under the contract with Imperial Irrigation District are paid from this fund.

(b) Pay-As-You-Go Fund (Fund No. 02, established 1988). Used to finance certain capital program expenditures from current revenues in accordance with Section 5109, subject to the conditions contained in Section 5202.

(c) 1931 General Obligation Bond Interest and Redemption Fund (Fund No. 04, established 1932). Used to pay debt service on 1931 authorization general obligation bonds of the District from ad valorem property taxes subject to the conditions contained in Section 5201.

(d) State Contract Fund (Fund No. 05, established 1960). Used for the payment of capital charges under the State Water Contract, including the capital charges for off-aqueduct power facilities, subject to the conditions contained in Section 5201.

(e) Special Tax Fund (Fund No. 06, established 1951). Annexation fees (cash payments and special tax collections) are deposited in this fund and transferred to the State Contract Fund to pay a portion of State Water Contract capital charges.

(f) Replacement Reserve Fund (Fund No. 40, established 1960, inactive as of 1967). May be used to set aside funds for the purchase of replacements.

(g) 1966 General Obligation Bond Construction Fund (Fund No. 08, established 1967). Proceeds from the sale of District general obligation bonds are deposited in this fund and are applied exclusively to the purposes for which the bonds were authorized.

(h) 1966 General Obligation Bond Interest and Principal Fund (Fund No. 11, established 1967). Used to pay debt service on District 1966 authorization general obligation bonds from ad valorem property taxes subject to the conditions contained in Section 5201.

(i) Optional General Obligation Bond Redemption Fund (Fund No. 15, established 1980, amended 1993). Used for the purpose of redeeming untendered refunded general obligation bonds.

(j) Waterworks Revenue Bond Construction Fund (Fund No. 20, established 1975). Proceeds from the sale of revenue bonds issued prior to 1987 (the Prior Lien Waterworks Revenue Bonds) were deposited in this fund and are applied exclusively to the purposes for which the bonds were authorized.

(k) Water Revenue Fund (Fund No. 21, established 1975). Receipts from water sales are deposited in this fund and are transferred to various other funds in accordance with revenue bond covenants and Board resolutions to pay in order of priority:

- (1) Operation and maintenance expenditures;
- (2) Principal of, premium, if any, and interest on the Prior Lien Waterworks Revenue Bonds and any required deposits into any reserve funds or accounts therefore;
- (3) The interest on and bond obligation of Subordinate Lien Water Revenue Bonds and Parity Obligations issued pursuant to Master Resolution 8329 (the Master Resolution) adopted by the Board on July 9, 1991 and any Supplemental Resolutions thereto;
- (4) All other payments required for compliance with the Master Resolution, and any Supplemental Resolutions;
- (5) Principal of and interest on Commercial Paper Notes and other amounts due a provider of a liquidity facility;
- (6) Deposits into the Water Standby Charge Fund in accordance with resolutions imposing such charges; and
- (7) Any other obligations which are charges, liens, or encumbrances upon or payable from net operating revenues.

Moneys remaining at the end of the each month, after the foregoing transfers, are transferred to the Revenue Remainder Fund.

(l) Operation and Maintenance Fund (Fund No. 22, established 1975). Used to pay all operation and maintenance expenditures, including State Water Contract operation, maintenance, power and replacement charges, subject to the conditions contained in Section 5201.

(m) Waterworks Revenue Bond Interest and Principal Fund (Fund No. 23, established 1975). Used to pay the debt service on Prior Lien Waterworks Revenue Bonds of the District, subject to the conditions contained in Section 5201.

(n) Waterworks Revenue Bond Reserve Fund (Fund No. 24, established 1975). Used to maintain debt service reserve for Prior Lien Waterworks Revenue Bonds, subject to the conditions contained in Section 5201.

(o) Revenue Remainder Fund (Fund No. 25, established 1975). Used to maintain working capital and certain designated funds in accordance with Section 5200(k), and may be used for any lawful purpose by the District, subject to the conditions contain in Section 5202.

(p) Note Interest and Principal Fund (Fund No. 28, established 1981). Used to pay debt service on District revenue bond anticipation notes, in accordance with covenants for such notes.

(q) Optional Revenue Bond Redemption Fund 1975 (Fund No. 30, established 1985, amended 1993). Used for the purpose of redeeming the untendered refunded revenue bonds.

(r) Water Rate Stabilization Fund (Fund No. 33, established 1987). Used to reduce future water revenue requirements or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(s) Water Treatment Surcharge Stabilization Fund (Fund No. 34, established 1988). Used to mitigate required increases in the surcharge for water treatment or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(t) Revolving Construction Fund (Fund No. 35, established 1988). Capital expenditures made from this fund are to be reimbursed from proceeds of security sales to the extent such expenditures are authorized uses of debt proceeds under the Act, subject to the conditions and restrictions contained in Section 5201.

(u) Series G 1966 General Obligation Bond Construction Fund (Fund No. 36, established 1989). Proceeds from the sale of the District's Series G 1966 General Obligation bonds are deposited in this fund and applied exclusively to the purposes for which the bonds were authorized.

(v) Series G 1966 General Obligation Bond Interest and Principal Fund (Fund No. 37, established 1989). Used to pay debt service on the District's Series G 1966 General Obligation bonds from ad valorem taxes subject to the conditions contained in Section 5201.

(w) Series G 1966 General Obligation Bond Excess Earnings Fund (Fund No. 38, established 1990). Used to separately hold rebatable arbitrage interest earnings transferred from the Series G 1966 General Obligation Bond Construction Fund, computed on an annual basis in accordance with federal regulations.

(x) Series G 1966 General Obligation Bond Reserve for Interest and Principal Fund (Fund No. 39, established 1990). Used to satisfy debt service requirements if there are insufficient funds available in the Series G 1966 General Obligation Bond Interest and Principal Fund.

(y) Employee Deferred Compensation Fund (Fund No. 50, established 1976). Compensation deferred by employees under Section 457 of the Internal Revenue Code of 1986, as amended, is deposited in this fund and is withdrawn in accordance with Articles 2 and 3 of Chapter 7 of Division VI.

(z) San Joaquin Reservoir Fund (Fund No. 51, established 1980). Used for the purposes contained in the San Joaquin Reservoir Trust Agreement between the District and the other entities who share joint ownership of the facility.

(aa) Iron Mountain Landfill Closure/Postclosure Maintenance Fund (Fund No. 52, established 1990). Used as a trust fund to maintain monies sufficient to cover the costs of closure and postclosure maintenance of the District's solid waste landfill facility at Iron Mountain, in accordance with regulations of the California Integrated Waste Management Board, and subject to the conditions contained in Section 5201(l).

(bb) Commercial Paper Note Construction Fund (Fund No. 53, established 1991). Proceeds from the sale of commercial paper are deposited in this fund and are applied exclusively to the purposes for which the notes were authorized.

(cc) Commercial Paper Note Payment Fund (Fund No. 54, established 1991). Used to pay debt service on commercial paper of the District, subject to the conditions contained in Section 5201.

(dd) Commercial Paper Note Excess Earnings Fund (Fund No. 55, established 1991). Used to separately hold rebatable arbitrage interest earnings transferred from the Commercial Paper Note Construction Fund, computed on an annual basis in accordance with federal regulations.

(ee) Water Revenue Bonds, Issue of 1991 Construction Fund (Fund No. 56, established 1991). Net proceeds from the sale of these subordinate revenue bonds were deposited in this fund and are used exclusively for the purposes for which the bonds were authorized.

(ff) Water Revenue Bond Service Fund (Fund No. 57, established 1991). Used to pay debt service on subordinate water revenue bonds after payment of Prior Lien Waterworks Revenue Bonds, including reimbursement of any payments made by providers of credit as liquidity enhancement for the bonds.

(gg) Water Revenue Bonds, Issue of 1991 Reserve Fund (Fund No. 58, established 1991). Proceeds from the sale of these subordinate revenue bonds, in an amount equal to the 1991 Bond Reserve Requirement, were deposited in this fund. Used to satisfy debt service requirements if there are insufficient funds available in the Water Revenue Bond Service Fund.

(hh) Water Revenue Bonds, Issue of 1991 Excess Earnings Fund (Fund No. 59, established 1991). Used to separately hold in trust for payment to the Federal Government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the First Supplemental Resolution for these subordinate bonds.

(ii) Water Standby Charge Fund (Fund No. 60, established 1992). Used to separately hold revenues attributable to water standby charges; amounts deposited in this fund are used exclusively for the purpose for which the water standby charge was authorized.

(jj) Water Revenue Bonds, Issue of 1992 Construction Fund (Fund No. 61, established 1992). Net proceeds from the sale of these subordinate revenue bonds were deposited in this fund and are use exclusively for the purposes for which the bonds were authorized.

(kk) Water Revenue Bonds, Issue of 1992 Reserve Fund (Fund No. 62, established 1992). Proceeds from the sale of these subordinate bonds, in an amount equal to the 1992 Bond Reserve Requirement, were deposited into this fund. Used to satisfy debt service requirements if there are insufficient funds available in the Water Revenue Bond Service Fund.

(ll) Water Revenue Bonds, Issue of 1992 Excess Earnings Fund (Fund No. 63, established 1992). Used to separately hold in trust for payment to the Federal Government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Second Supplemental Resolution for these subordinate bonds.

(mm) Water Revenue Refunding Bonds, 1993 Series A Interest and Principle Fund (Fund No. 64, established 1993). Used to pay debt service on the subordinate water revenue refunding bonds after payment of prior lien revenue bonds.

(nn) Water Revenue Refunding Bonds, 1993 Series A Excess Earnings Fund (Fund No. 65, established 1993). Used to separately hold in trust for payment to the Federal government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Fourth Supplemental Resolution for these refunding bonds.

(oo) Water Revenue Refunding Bonds, 1993 Series A Construction Fund (Fund No. 66, established 1993). Funds released from the Water Revenue Bond Reserve Fund due to the reduction in reserve requirements are deposited to this fund and use exclusively for construction purposes.

(pp) Waterworks General Obligation Refunding Bonds, 1993 Series, Interest and Principle Fund (Fund No. 67, established 1993). Used to pay debt service on the District's 1993 Series A3, general obligation refunding bonds.

(qq) Waterworks General Obligation Refunding Bonds, 1993 Series, Excess Earnings Fund (Fund No. 68, established 1993). Used to separately hold in trust for payment to the Federal government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Resolution for these refunding bonds.

(rr) Waterworks General Obligation Refunding Bonds, 1993 Series A1 and A2, Escrow Account Fund (Fund No. 69, established 1993). Proceeds from the sale of the 1993 Series A1 and A2, general obligation refunding bonds are deposited in this fund and used to pay debt service on the 1993 Series A1 and A2, general obligation refunding bonds through March 1, 1999 and March 1, 1996, respectively. At these dates the funds available will be used to effect partial refunding of certain bonds for which the bonds were issued.

(ss) Waterworks General Obligation Refunding Bonds, 1993 Series A3, Refunding Fund (Fund No. 70, established 1993). Proceeds from the sale of the 1993 Series A3 bonds are deposited into this fund and used to defease certain maturities of outstanding prior general obligation bonds and to pay for certain costs.

(tt) Water Revenue Refunding Bonds, 1993 Series A, Refunding Fund (Fund No. 71, established 1993). Proceeds from the sale of the 1993 Series A bonds, along with certain other available moneys of the District, are deposited into this fund and used to defease certain maturities of outstanding prior revenue bonds and to pay for certain costs.

(uu) Water Revenue Refunding Bonds, 1993 Series B, Refunding Fund (Fund No. 72, established 1993). Proceeds from the sale of the 1993 Series B bonds, along with certain other available moneys of the District, are deposited into this fund and used to defease certain maturities of outstanding prior revenue bonds and to pay for certain costs.

(vv) Water Revenue Refunding Bonds, 1993 Series B, Interest and Principle Fund (Fund No. 73, established 1993). Used to pay debt service on these subordinate water revenue refunding bonds after payment of prior lien revenue bonds.

(ww) Water Revenue Refunding Bonds, 1993 Series B Reserve Fund (Fund No. 74, established 1993). Proceeds from the sale of these subordinate bonds, in an amount necessary to maintain the Bond Reserve Requirement, were deposited in this fund. Used to satisfy debt service requirements if there are insufficient funds available in the Water Revenue Refunding Bonds, 1993 Series B Interest and Principal Fund.

(xx) Water Revenue Refunding Bonds, 1993 Series B Excess Earnings Fund (Fund No. 75, established 1993). Used to separately hold in trust for payment to the Federal Government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Fourth Supplemental Resolution for these refunding bonds.

(yy) Waterworks General Obligation Refunding Bonds, 1993 Series B Refunding Fund (Fund No. 76, established 1993). Proceeds from the sale of the 1993 Series B Bonds are deposited into this fund and used to defease certain maturities of outstanding prior general obligation bonds and to pay for certain costs.

(zz) Waterworks General Obligation Refunding Bonds, 1993 Series B Interest and Principal Fund (Fund No. 77, established 1993). Used to pay debt service on the District's 1993 Series B general obligation refunding bonds.

(aaa) Waterworks General Obligation Refunding Bonds, 1993 Series B Excess Earnings Fund (Fund No. 78, established 1993). Used to separately hold in trust for payment to the Federal government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Resolution for these refunding bonds.

(bbb) Water Transfer Fund (Fund No. 79, established 1995). Used for moneys set aside for the purchase of water through transfers or similar arrangements, and for the costs of filling the Domenigoni Valley Reservoir Project.

§ 5201. Restricted Funds.

Cash and securities to be held in the various ledger funds shall be as follows:

(a) For the 1931 General Obligation Bond Interest and Redemption Fund and the 1966 General Obligation Bond Interest and Principal Fund, the Series G 1966 General Obligation Bond Interest and Principal Fund, and the Waterworks General Obligation Refunding Bonds, 1993 Series A and Series B, Interest and Principal Fund, the cash and securities in each as of June 30, shall be at least equal to the debt service for the ensuing 18 months, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.

(b) For the Waterworks Revenue Bond Interest and Principal Fund, the Water Revenue Bond Service Fund, the Waterworks Revenue Bond Reserve Fund, the Water Revenue Bonds, Issue of 1991 Reserve Fund, the Water Revenue Bonds, Issue of 1992 Reserve Fund, and the Waterworks General Obligation Refunding Bonds, 1993 Series A and Series B Interest and Principal Funds, and the Water Revenue Refunding Bonds, 1993 Series B Reserve Fund, cash and securities in each shall be at least equal to the minimums required by the resolutions of issuance for such bonds.

(c) For the 1966 General Obligation Bond Construction Fund, the Series G 1966 General Obligation Bond Construction Fund and the Waterworks Revenue Bond Construction Fund, the Commercial Paper Note Construction Fund, the Water Revenue Bonds, Issue of 1991 Construction Fund, the Water Revenue Bonds, Issue of 1992 Construction Fund, the Waterworks General Obligation Refunding Bonds, 1993 Series, Interest and Principal Fund, there shall be no minimum requirements; provided that any cash and securities in such funds shall be restricted to use for the purposes such finances were required.

(d) For the State Contract Fund, cash and securities on hand June 30 and December 31 shall equal the capital payments to the State Department of Water Resources that are due on July 1 of the same year and January 1 of the following year, respectively.

(e) For the Special Tax Fund, there shall be no minimum requirement.

(f) For the Operation and Maintenance Fund, cash and securities shall be at least equal to the minimum required by the resolutions of issuance for revenue bonds.

(g) For the Revolving Construction Fund, there shall be no minimum requirement. Cash and securities in this fund, unless restricted as to use by resolution of the Board, shall be available for transfer to the Water Rate Stabilization Fund and the Water Treatment Surcharge Stabilization Fund at the discretion of the Board.

(h) For the Commercial Paper Note Payment Fund, the District shall deposit amounts sufficient to pay principal of, and interest on, the Commercial Paper Notes in an amount at least equal to one-half of the projected interest payments due on such notes in the subsequent fiscal year.

(i) For the Water Standby Charge Fund, there shall be no minimum requirement; provided that any cash and securities in such fund shall be restricted to use for the purposes such monies were authorized.

(j) For the Series G 1966 G.O. Bond Excess Earnings Fund, the Commercial Paper Note Excess Earnings Fund, the Water Revenue Bond Issue of 1991 and Issue of 1992 Excess Earnings Funds, the Water Revenue Refunding Bonds, 1993 Series A and Series B Excess Earnings Fund and the Waterworks General Obligation Refunding Bonds, 1993 Series A and Series B Excess Earning Fund, the minimum requirement shall be the amounts deposited into this fund in accordance with the provisions of the Tax and Nonarbitrage Certificates and Resolutions for the Bonds.

(k) For the Waterworks General Obligation Refunding Bonds, 1993 Series A1 and A2, Escrow Account Fund, the minimum requirement shall be the amounts necessary to pay the principle, if any, and the interest on the Series A1 and A2 Bonds to the crossover date, and to defease certain maturities of outstanding prior general obligation bonds.

(l) For the Iron Mountain Landfill Closure/Postclosure Maintenance Fund, cash and securities as of June 30, shall be at least equal to the General Manager's latest estimates of closure and postclosure maintenance costs.

(m) For the Optional General Obligation Bond Redemption Fund and the Optional Revenue Bond Redemption Fund, the minimum requirement shall be the amount necessary to redeem such untendered, refunded bonds which have been called for redemption.

(n) For the Water Transfer Fund, all amounts budgeted or pledged for purchase of water through transfers or similar arrangements, and for the costs of filling the Domenigoni Valley Reservoir Project, shall be set aside in such fund and used solely for such purpose. On July 1, 2004, any amounts remaining shall be transferred to the Water Rate Stabilization Fund.

§ 5202. Working Capital.

The minimum cash and securities to be held in the various ledger funds as of June 30 of each year shall be as follows:

(a) For the Revenue Remainder Fund and the General Fund, working capital shall be equal to the sum of \$25 million for emergency repairs and claims against the District, and \$150 million for general purposes to be used in the event that revenues are insufficient to pay the costs of the District.

(b) For the Pay-As-You-Go Fund, cash and securities on hand June 30, shall be at least equal to the estimated amount needed to fund pay-as-you-go expenditures, as defined in Section 5109 during the next fiscal year.

(c) Amounts remaining in the Revenue Remainder Fund and General Fund collectively on June 30 of each year after meeting the requirements set forth in Section 5202(a) and (b) shall be transferred to the Water Rate Stabilization Fund. Except as required under Section 5201(d), such funds shall be available for the principal purpose of reducing water revenue requirements. Notwithstanding the principal purpose of the Water Rate Stabilization Funds, amounts assigned to this fund shall be available for any other lawful purpose of the District.

(d) After making the transfer of funds as set forth in Section 5202(c), a determination shall be made to substantially identify the portion, if any, of such transferred funds attributable to collections of treatment surcharge revenue in excess of water treatment cost. Such funds shall be transferred to the Water Treatment Surcharge Stabilization Fund to be available for the principal purpose of mitigating required increases in the surcharge for water treatment. If such determination indicates a deficiency in treatment surcharge revenue occurred during the fiscal year, a transfer of funds shall be made from the Water Treatment Surcharge Stabilization Fund as needed to reimburse funds used for the deficiency. Notwithstanding the principal purpose of the Water Treatment Surcharge Stabilization Fund, amounts assigned to this fund shall be available for any other lawful purpose of the District.

(e) After making the transfers of funds as set forth in Section 5202(c) and (d), amounts in the Water Rate Stabilization Fund in excess of \$200,000,000 shall be transferred to the Pay-As-You-Go Fund to be applied to capital expenditures as provided in Section 5109.

Attachment B**§ 5109. Pay-As-You-Go Funding.**

To preserve debt capacity for evolving or unexpected financial needs, the Board's objective shall be to fund on a pay-as-you-go basis 20 percent of capital program expenditures of the District, including the costs of:

- (a) Capital facilities or projects totaling \$1,000,000 or less.
- (b) Capital assets with estimated payback periods or useful lives shorter than the calculated average life of alternative long-term bond financing.
- (c) Capital improvement program studies.
- (d) Other lawful purposes as determined by the Board.

The costs relating to provisions (a) through (d) above shall be paid from operating revenues, including revenues derived from water standby or availability service charges or benefit assessments, and proceeds from disposals of surplus property made available for expenditure by the Board in the Pay-As-You-Go Fund. ~~The General Manager shall be authorized to transfer funds to the Pay-As-You-Go Fund in accordance with amounts appropriated from that fund by the Board.~~

§ 5200. Funds Established.

To provide for accountability of public moneys in accordance with applicable federal and state law and regulations, bond covenants, tax and non-arbitrage certificates, bond counsel letters of instruction and Board policies, the following funds active or prospectively active have been established in the Treasury of the District:

- (a) General Fund (Fund No. 01, established 1929). Moneys not specifically allocated or appropriated may be placed in this fund and used for general purposes of the District. Expenditures for reimbursable work and water conservation capital

and indirect costs under the contract with Imperial Irrigation District are paid from this fund.

(b) Pay-As-You-Go Fund (Fund No. 02, established 1988). Used to finance certain capital program expenditures from current revenues in accordance with Section 5109, subject to the conditions contained in Section 5202.

(c) 1931 General Obligation Bond Interest and Redemption Fund (Fund No. 04, established 1932). Used to pay debt service on 1931 authorization general obligation bonds of the District from ad valorem property taxes subject to the conditions contained in Section 5201.

(d) State Contract Fund (Fund No. 05, established 1960). Used for the payment of capital charges under the State Water Contract, including the capital charges for off-aqueduct power facilities, subject to the conditions contained in Section 5201.

(e) Special Tax Fund (Fund No. 06, established 1951). Annexation fees (cash payments and special tax collections) are deposited in this fund and transferred to the State Contract Fund to pay a portion of State Water Contract capital charges.

(f) Replacement Reserve Fund (Fund No. 40, established 1960, inactive as of 1967). May be used to set aside funds for the purchase of replacements.

(g) 1966 General Obligation Bond Construction Fund (Fund No. 08, established 1967). Proceeds from the sale of District general obligation bonds are deposited in this fund and are applied exclusively to the purposes for which the bonds were authorized.

(h) 1966 General Obligation Bond Interest and Principal Fund (Fund No. 11, established 1967). Used to pay debt service on District 1966 authorization general obligation bonds from ad valorem property taxes subject to the conditions contained in Section 5201.

(i) Optional General Obligation Bond Redemption Fund (Fund No. 15, established 1980, amended 1993). Used for the purpose of redeeming untendered refunded general obligation bonds.

(j) Waterworks Revenue Bond Construction Fund (Fund No. 20, established 1975). Proceeds from the sale of revenue bonds issued prior to 1987 (the Prior Lien Waterworks Revenue Bonds) were deposited in this fund and are applied exclusively to the purposes for which the bonds were authorized.

(k) Water Revenue Fund (Fund No. 21, established 1975). Receipts from water sales are deposited in this fund and are transferred to various other funds in accordance with revenue bond covenants and Board resolutions to pay in order of priority:

- (1) Operation and maintenance expenditures;
- (2) Principal of, premium, if any, and interest on the Prior Lien Waterworks Revenue Bonds and any required deposits into any reserve funds or accounts therefore;
- (3) The interest on and bond obligation of Subordinate Lien Water Revenue Bonds and Parity Obligations issued pursuant to Master Resolution 8329 (the Master Resolution) adopted by the Board on July 9, 1991 and any Supplemental Resolutions thereto;
- (4) All other payments required for compliance with the Master Resolution, and any Supplemental Resolutions;
- (5) Principal of and interest on Commercial Paper Notes and other amounts due a provider of a liquidity facility;
- (6) Deposits into the Water Standby Charge Fund in accordance with resolutions imposing such charges; and
- (7) Any other obligations which are charges, liens, or encumbrances upon or payable from net operating revenues.

Moneys remaining at the end of the each month, after the foregoing transfers, are transferred to the Revenue Remainder Fund.

(l) Operation and Maintenance Fund (Fund No. 22, established 1975). Used to pay all operation and maintenance expenditures, including State Water Contract

operation, maintenance, power and replacement charges, subject to the conditions contained in Section 5201.

(m) Waterworks Revenue Bond Interest and Principal Fund (Fund No. 23, established 1975). Used to pay the debt service on Prior Lien Waterworks Revenue Bonds of the District, subject to the conditions contained in Section 5201.

(n) Waterworks Revenue Bond Reserve Fund (Fund No. 24, established 1975). Used to maintain debt service reserve for Prior Lien Waterworks Revenue Bonds, subject to the conditions contained in Section 5201.

(o) Revenue Remainder Fund (Fund No. 25, established 1975). Used to maintain working capital and certain designated funds in accordance with Section 5200(k), and may be used for any lawful purpose by the District, subject to the conditions contain in Section 5202.

(p) Note Interest and Principal Fund (Fund No. 28, established 1981). Used to pay debt service on District revenue bond anticipation notes, in accordance with covenants for such notes.

(q) Optional Revenue Bond Redemption Fund 1975 (Fund No. 30, established 1985, amended 1993). Used for the purpose of redeeming the untendered refunded revenue bonds.

(r) Water Rate Stabilization Fund (Fund No. 33, established 1987). Used to reduce future water revenue requirements or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(s) Water Treatment Surcharge Stabilization Fund (Fund No. 34, established 1988). Used to mitigate required increases in the surcharge for water treatment or, as directed by the Board, for other lawful purposes, in accordance with Section 5202.

(t) Revolving Construction Fund (Fund No. 35, established 1988). Capital expenditures made from this fund are to be reimbursed from proceeds of security sales to the extent such expenditures are authorized uses of debt proceeds under the Act, subject to the conditions and restrictions contained in Section 5201.

(u) Series G 1966 General Obligation Bond Construction Fund (Fund No. 36, established 1989). Proceeds from the sale of the District's Series G 1966 General Obligation bonds are deposited in this fund and applied exclusively to the purposes for which the bonds were authorized.

(v) Series G 1966 General Obligation Bond Interest and Principal Fund (Fund No. 37, established 1989). Used to pay debt service on the District's Series G 1966 General Obligation bonds from ad valorem taxes subject to the conditions contained in Section 5201.

(w) Series G 1966 General Obligation Bond Excess Earnings Fund (Fund No. 38, established 1990). Used to separately hold rebatable arbitrage interest earnings transferred from the Series G 1966 General Obligation Bond Construction Fund, computed on an annual basis in accordance with federal regulations.

(x) Series G 1966 General Obligation Bond Reserve for Interest and Principal Fund (Fund No. 39, established 1990). Used to satisfy debt service requirements if there are insufficient funds available in the Series G 1966 General Obligation Bond Interest and Principal Fund.

(y) Employee Deferred Compensation Fund (Fund No. 50, established 1976). Compensation deferred by employees under Section 457 of the Internal Revenue Code of 1986, as amended, is deposited in this fund and is withdrawn in accordance with Articles 2 and 3 of Chapter 7 of Division VI.

(z) San Joaquin Reservoir Fund (Fund No. 51, established 1980). Used for the purposes contained in the San Joaquin Reservoir Trust Agreement between the District and the other entities who share joint ownership of the facility.

(aa) Iron Mountain Landfill Closure/Postclosure Maintenance Fund (Fund No. 52, established 1990). Used as a trust fund to maintain monies sufficient to cover the costs of closure and postclosure maintenance of the District's solid waste landfill facility at Iron Mountain, in accordance with regulations of the California Integrated Waste Management Board, and subject to the conditions contained in Section 5201(1).

(bb) Commercial Paper Note Construction Fund (Fund No. 53, established 1991). Proceeds from the sale of commercial paper are deposited in this fund and are applied exclusively to the purposes for which the notes were authorized.

(cc) Commercial Paper Note Payment Fund (Fund No. 54, established 1991). Used to pay debt service on commercial paper of the District, subject to the conditions contained in Section 5201.

(dd) Commercial Paper Note Excess Earnings Fund (Fund No. 55, established 1991). Used to separately hold rebatable arbitrage interest earnings transferred from the Commercial Paper Note Construction Fund, computed on an annual basis in accordance with federal regulations.

(ee) Water Revenue Bonds, Issue of 1991 Construction Fund (Fund No. 56, established 1991). Net proceeds from the sale of these subordinate revenue bonds were deposited in this fund and are used exclusively for the purposes for which the bonds were authorized.

(ff) Water Revenue Bond Service Fund (Fund No. 57, established 1991). Used to pay debt service on subordinate water revenue bonds after payment of Prior Lien Waterworks Revenue Bonds, including reimbursement of any payments made by providers of credit as liquidity enhancement for the bonds.

(gg) Water Revenue Bonds, Issue of 1991 Reserve Fund (Fund No. 58, established 1991). Proceeds from the sale of these subordinate revenue bonds, in an amount equal to the 1991 Bond Reserve Requirement, were deposited in this fund. Used to satisfy debt service requirements if there are insufficient funds available in the Water Revenue Bond Service Fund.

(hh) Water Revenue Bonds, Issue of 1991 Excess Earnings Fund (Fund No. 59, established 1991). Used to separately hold in trust for payment to the Federal Government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the First Supplemental Resolution for these subordinate bonds.

(ii) Water Standby Charge Fund (Fund No. 60, established 1992). Used to separately hold revenues attributable to water standby charges; amounts deposited in this fund are used exclusively for the purpose for which the water standby charge was authorized.

(jj) Water Revenue Bonds, Issue of 1992 Construction Fund (Fund No. 61, established 1992). Net proceeds from the sale of these subordinate revenue bonds

were deposited in this fund and are use exclusively for the purposes for which the bonds were authorized.

(kk) Water Revenue Bonds, Issue of 1992 Reserve Fund (Fund No. 62, established 1992). Proceeds from the sale of these subordinate bonds, in an amount equal to the 1992 Bond Reserve Requirement, were deposited into this fund. Used to satisfy debt service requirements if there are insufficient funds available in the Water Revenue Bond Service Fund.

(ll) Water Revenue Bonds, Issue of 1992 Excess Earnings Fund (Fund No. 63, established 1992). Used to separately hold in trust for payment to the Federal Government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Second Supplemental Resolution for these subordinate bonds.

(mm) Water Revenue Refunding Bonds, 1993 Series A Interest and Principle Fund (Fund No. 64, established 1993). Used to pay debt service on the subordinate water revenue refunding bonds after payment of prior lien revenue bonds.

(nn) Water Revenue Refunding Bonds, 1993 Series A Excess Earnings Fund (Fund No. 65, established 1993). Used to separately hold in trust for payment to the Federal government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Fourth Supplemental Resolution for these refunding bonds.

(oo) Water Revenue Refunding Bonds, 1993 Series A Construction Fund (Fund No. 66, established 1993). Funds released from the Water Revenue Bond Reserve Fund due to the reduction in reserve requirements are deposited to this fund and use exclusively for construction purposes.

(pp) Waterworks General Obligation Refunding Bonds, 1993 Series, Interest and Principle Fund (Fund No. 67, established 1993). Used to pay debt service on the District's 1993 Series A3, general obligation refunding bonds.

(qq) Waterworks General Obligation Refunding Bonds, 1993 Series, Excess Earnings Fund (Fund No. 68, established 1993). Used to separately hold in trust for payment to the Federal government amounts deposited in accordance with the

provisions of the Tax and Nonarbitrage Certificate and the Resolution for these refunding bonds.

(rr) Waterworks General Obligation Refunding Bonds, 1993 Series A1 and A2, Escrow Account Fund (Fund No. 69, established 1993). Proceeds from the sale of the 1993 Series A1 and A2, general obligation refunding bonds are deposited in this fund and used to pay debt service on the 1993 Series A1 and A2, general obligation refunding bonds through March 1, 1999 and March 1, 1996, respectively. At these dates the funds available will be used to effect partial refunding of certain bonds for which the bonds were issued.

(ss) Waterworks General Obligation Refunding Bonds, 1993 Series A3, Refunding Fund (Fund No. 70, established 1993). Proceeds from the sale of the 1993 Series A3 bonds are deposited into this fund and used to defease certain maturities of outstanding prior general obligation bonds and to pay for certain costs.

(tt) Water Revenue Refunding Bonds, 1993 Series A, Refunding Fund (Fund No. 71, established 1993). Proceeds from the sale of the 1993 Series A bonds, along with certain other available moneys of the District, are deposited into this fund and used to defease certain maturities of outstanding prior revenue bonds and to pay for certain costs.

(uu) Water Revenue Refunding Bonds, 1993 Series B, Refunding Fund (Fund No. 72, established 1993). Proceeds from the sale of the 1993 Series B bonds, along with certain other available moneys of the District, are deposited into this fund and used to defease certain maturities of outstanding prior revenue bonds and to pay for certain costs.

(vv) Water Revenue Refunding Bonds, 1993 Series B, Interest and Principle Fund (Fund No. 73, established 1993). Used to pay debt service on these subordinate water revenue refunding bonds after payment of prior lien revenue bonds.

(ww) Water Revenue Refunding Bonds, 1993 Series B Reserve Fund (Fund No. 74, established 1993). Proceeds from the sale of these subordinate bonds, in an amount necessary to maintain the Bond Reserve Requirement, were deposited in this fund. Used to satisfy debt service requirements if there are insufficient

funds available in the Water Revenue Refunding Bonds, 1993 Series B Interest and Principal Fund.

(xx) Water Revenue Refunding Bonds, 1993 Series B Excess Earnings Fund (Fund No. 75, established 1993). Used to separately hold in trust for payment to the Federal Government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Fourth Supplemental Resolution for these refunding bonds.

(yy) Waterworks General Obligation Refunding Bonds, 1993 Series B Refunding Fund (Fund No. 76, established 1993). Proceeds from the sale of the 1993 Series B Bonds are deposited into this fund and used to defease certain maturities of outstanding prior general obligation bonds and to pay for certain costs.

(zz) Waterworks General Obligation Refunding Bonds, 1993 Series B Interest and Principal Fund (Fund No. 77, established 1993). Used to pay debt service on the District's 1993 Series B general obligation refunding bonds.

(aaa) Waterworks General Obligation Refunding Bonds, 1993 Series B Excess Earnings Fund (Fund No. 78, established 1993). Used to separately hold in trust for payment to the Federal government amounts deposited in accordance with the provisions of the Tax and Nonarbitrage Certificate and the Resolution for these refunding bonds.

(bbb) Water Transfer Fund (Fund No. 79, established 1995). Used for moneys set aside for the purchase of water through transfers or similar arrangements, and for the costs of filling the Domenigoni Valley Reservoir Project.

§ 5201. Restricted Funds.

Cash and securities to be held in the various ledger funds shall be as follows:

(a) For the 1931 General Obligation Bond Interest and Redemption Fund and the 1966 General Obligation Bond Interest and Principal Fund, the Series G 1966 General Obligation Bond Interest and Principal Fund, and the Waterworks General Obligation Refunding Bonds, 1993 Series A and Series B, Interest and Principal Fund, the cash and securities in each as of June 30, shall be at least equal to the

debt service for the ensuing 18 months, less revenues anticipated to be derived from the next succeeding tax levy specifically for such debt service.

(b) For the Waterworks Revenue Bond Interest and Principal Fund, the Water Revenue Bond Service Fund, the Waterworks Revenue Bond Reserve Fund, the Water Revenue Bonds, Issue of 1991 Reserve Fund, the Water Revenue Bonds, Issue of 1992 Reserve Fund, and the Waterworks General Obligation Refunding Bonds, 1993 Series A and Series B Interest and Principal Funds, and the Water Revenue Refunding Bonds, 1993 Series B Reserve Fund, cash and securities in each shall be at least equal to the minimums required by the resolutions of issuance for such bonds.

(c) For the 1966 General Obligation Bond Construction Fund, the Series G 1966 General Obligation Bond Construction Fund and the Waterworks Revenue Bond Construction Fund, the Commercial Paper Note Construction Fund, the Water Revenue Bonds, Issue of 1991 Construction Fund, the Water Revenue Bonds, Issue of 1992 Construction Fund, the Waterworks General Obligation Refunding Bonds, 1993 Series, Interest and Principal Fund, there shall be no minimum requirements; provided that any cash and securities in such funds shall be restricted to use for the purposes such finances were required.

(d) For the State Contract Fund, cash and securities on hand June 30 and December 31 shall equal the capital payments to the State Department of Water Resources that are due on July 1 of the same year and January 1 of the following year, respectively.

(e) For the Special Tax Fund, there shall be no minimum requirement.

(f) For the Operation and Maintenance Fund, cash and securities shall be at least equal to the minimum required by the resolutions of issuance for revenue bonds.

(g) For the Revolving Construction Fund, there shall be no minimum requirement. Cash and securities in this fund, unless restricted as to use by resolution of the Board, shall be available for transfer to the Water Rate Stabilization Fund and the Water Treatment Surcharge Stabilization Fund at the discretion of the Board.

(h) For the Commercial Paper Note Payment Fund, the District shall deposit amounts sufficient to pay principal of, and interest on, the Commercial Paper Notes in an amount at least equal to one-half of the projected interest payments due on such notes in the subsequent fiscal year.

(i) For the Water Standby Charge Fund, there shall be no minimum requirement; provided that any cash and securities in such fund shall be restricted to use for the purposes such monies were authorized.

(j) For the Series G 1966 G.O. Bond Excess Earnings Fund, the Commercial Paper Note Excess Earnings Fund, the Water Revenue Bond Issue of 1991 and Issue of 1992 Excess Earnings Funds, the Water Revenue Refunding Bonds, 1993 Series A and Series B Excess Earnings Fund and the Waterworks General Obligation Refunding Bonds, 1993 Series A and Series B Excess Earning Fund, the minimum requirement shall be the amounts deposited into this fund in accordance with the provisions of the Tax and Nonarbitrage Certificates and Resolutions for the Bonds.

(k) For the Waterworks General Obligation Refunding Bonds, 1993 Series A1 and A2, Escrow Account Fund, the minimum requirement shall be the amounts necessary to pay the principle, if any, and the interest on the Series A1 and A2 Bonds to the crossover date, and to defease certain maturities of outstanding prior general obligation bonds.

(l) For the Iron Mountain Landfill Closure/Postclosure Maintenance Fund, cash and securities as of June 30, shall be at least equal to the General Manager's latest estimates of closure and postclosure maintenance costs.

(m) For the Optional General Obligation Bond Redemption Fund and the Optional Revenue Bond Redemption Fund, the minimum requirement shall be the amount necessary to redeem such untendered, refunded bonds which have been called for redemption.

(n) For the Water Transfer Fund, all amounts budgeted or pledged for purchase of water through transfers or similar arrangements, and for the costs of filling the Domenigoni Valley Reservoir Project, shall be set aside in such fund and used solely for such purpose. On July 1, 2004, any amounts remaining shall be transferred to the Water Rate Stabilization Fund.

§ 5202. Working Capital.

The minimum cash and securities to be held in the various ledger funds as of June 30 of each year shall be as follows:

(a) For the Revenue Remainder Fund and the General Fund, working capital shall be equal to the sum of \$25 million for emergency repairs and claims against the District, and \$150 million for general purposes to be used in the event that revenues are insufficient to pay the costs of the District.

(b) For the Pay-As-You-Go Fund, cash and securities on hand June 30, shall be at least equal to the estimated amount needed to fund pay-as-you-go expenditures, as defined in Section 5109 during the next fiscal year.

(c) Amounts remaining in the Revenue Remainder Fund and General Fund collectively on June 30 of each year after meeting the requirements set forth in Section 5202(a) and (b) shall be transferred to the Water Rate Stabilization Fund. Except as required under Section 5201(d), such funds shall be available for the principal purpose of reducing water revenue requirements. Notwithstanding the principal purpose of the Water Rate Stabilization Funds, amounts assigned to this fund shall be available for any other lawful purpose of the District.

(d) After making the transfer of funds as set forth in Section 5202(c), a determination shall be made to substantially identify the portion, if any, of such transferred funds attributable to collections of treatment surcharge revenue in excess of water treatment cost. Such funds shall be transferred to the Water Treatment Surcharge Stabilization Fund to be available for the principal purpose of mitigating required increases in the surcharge for water treatment. If such determination indicates a deficiency in treatment surcharge revenue occurred during the fiscal year, a transfer of funds shall be made from the Water Treatment Surcharge Stabilization Fund as needed to reimburse funds used for the deficiency. Notwithstanding the principal purpose of the Water Treatment Surcharge Stabilization Fund, amounts assigned to this fund shall be available for any other lawful purpose of the District.

(e) After making the transfers of funds as set forth in Section 5202(c) and (d), amounts in the Water Rate Stabilization Fund in excess of \$200,000,000 shall be transferred to the Pay-As-You-Go Fund to be applied to capital expenditures as provided in Section 5109.

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