



# Paradise Irrigation District

6332 Clark Rd, Paradise, CA 95969 · 530-877-4971 · Fax: 530-876-0483 · [www.pidwater.com](http://www.pidwater.com)

## AGENDA

**Paradise Irrigation District  
Finance Committee Meeting  
6332 Clark Road, Paradise, CA 95969**

**MONDAY, JULY 11, 2022 – 10:00 AM**

Committee Members: Board of Directors - Alan Hinman & Bob Matthews  
PID Staff – Brett Goodlin, Finance & Accounting Manager,  
Tom Lando, District Manager and Mickey Rich, Assistant District Manager  
Public Members – Gary Ledbetter and Steve Oehler

❖ *The Board of Directors is committed to making its meetings accessible to all citizens. Any persons requiring a special accommodation to participate, is requested to contact the District Secretary at 530-877-4971, extension 2039 at least 72 hours in advance of the meeting.*

❖ *To participate in the meeting remotely:  
Via Zoom Meeting: <https://us02web.zoom.us/j/88192841237>  
Telephone: +1 669 900 6833 US (San Jose)  
Meeting ID: 881 9284 1237*

*To improve participation during the meeting, we will be accepting public comments from Zoom Meeting participants during the meeting. The Board cannot take action on any matter not on the agenda. Public comments specific to an agenda item will be read directly after the agenda item and before the Board votes on an item.*

*Via Email or Telephone: Public comment will be accepted by email with the subject line PUBLIC COMMENT ITEM NO. \_\_\_\_ to [gborrayo@paradiseirrigation.com](mailto:gborrayo@paradiseirrigation.com) or telephone (530) 876-2039 prior to 8:30 a.m. on the day of the meeting.*

### **1. Opening**

### **2. Public Participation**

This is the time for members of the audience to present items not on the agenda. No action can be taken on these items, but they may be placed on future agendas for consideration. Comments should be limited to a maximum of five minutes duration. If more time is needed, communication may be submitted in writing to committee members, or placed on the agenda for a future committee meeting.

### **3. Investment Advisory Services** (Brett Goodlin): Review and discussion regarding proposals from investment advisory firms for portfolio management services for possible recommendation to the Board of Directors.

(Pages 2-14) **4. PID Reserve Fund Policy** (Brett Goodlin): Review of PID Policy & Procedures Chapter 14.B, Reserve Fund Policy for possible recommendation to the Board of Directors if an update is proposed.

(Pages 15-20) **5. PID Debt Management Policy** (Brett Goodlin): Review of PID Policy & Procedures Chapter 14.C, Debt Management Policy for possible recommendation to the Board of Directors if an update is proposed.

### **6. Adjournment**

## **CHAPTER 14.B**

### **PARADISE IRRIGATION DISTRICT**

### **RESERVE FUND POLICY**

#### **Introduction:**

Paradise Irrigation District recognizes the importance of adopted policies relative to reserve funds. Written adopted financial policies relative to reserve funds have many benefits, and represents a critical element of sound fiscal management. Reserve funds are prudent fiscal management tools, which are a cornerstone of long-term financial planning. A written and adopted Reserve Fund Policy provides for and facilitates attainment of program and financial goals relative to the prudent accumulation and management of designated reserves and reserve funds. This Reserve Fund Policy was developed to clearly identify specific designated reserve funds. It is the intent of this Reserve Fund Policy to clearly identify both reserve fund categories and purposes, and set target levels for reserves that are consistent with the District's mission statement, the uniqueness of the District, and the philosophy of the District's Board of Directors. This policy shall be known and may be cited as the Paradise Irrigation District Reserve Fund Policy.

#### **Objectives:**

This Reserve Fund Policy has been developed to consider and appropriately provide for the following:

1. To assure continued operation and solvency of the District for the carrying out of its stated mission and purposes.
2. To maintain a financially viable District that can provide adequate levels of service.
3. To maintain and enhance the sound fiscal condition of the District
4. To maintain financial flexibility in order to be able to continually adapt to change, and permit an orderly adjustment to unanticipated events.
5. To maintain a diversified and stable long-term financial plan.
6. The accumulation and maintenance of an amount equal to the stated target fund level for each specific reserve fund created by the District.
7. The review of this policy on an annual basis in order to determine appropriate changes, additions and/or deletions.
8. To maintain a written Paradise Irrigation District Reserve Fund Policy.

#### **Reserve Fund Policy:**

In order to achieve the objectives of this Policy, the Board of Directors shall adhere to the following guidelines:

1. Reserve funds may be established from time to time by the Board of Directors as an important component of sound financial management to meet both short and long-term financial objectives, and to ensure prudent financial management practices.
2. Reserve funds may be designated by the Board of Directors as a "restricted reserve fund" or "non-restricted reserve fund".
3. Restricted reserve funds shall be segregated, and limited in use to specific and designated purpose(s) as defined and established by the Board of Directors.

4. Assets of a restricted reserve fund shall be held separately from the general fund, and shall only be used for the stated purpose(s) of the specific reserve fund.
5. All non-restricted revenue shall be held in the operating fund until the Board transfers reserves to other funds.
6. Non-restricted reserve funds shall have no reference to specific accounting assets.
7. Non-restricted reserve funds do not require the physical segregation of funds.
8. All investment earnings from non-restricted reserve funds shall be credited to the District's general Water Fund, unless otherwise stated herein.
9. Board of Director approval shall be required prior to the expenditure of restricted reserve funds, unless otherwise stated herein.
10. The Board of Directors shall maintain a written Paradise Irrigation District Reserve Fund Policy.
11. The Board of Directors shall annually review the Paradise Irrigation District Reserve Fund Policy at a public meeting in order to determine appropriate changes, additions, and/or deletions.

### **Reserve Funds:**

The Board of Directors hereby establishes and designates the following reserve funds:

| Priority Reserve                |                               |   | Target Formula                 |        |
|---------------------------------|-------------------------------|---|--------------------------------|--------|
|                                 |                               |   | Base Calculation               | MinMax |
| Non-Restricted                  |                               |   |                                |        |
| 1                               | Operating Fund                | Operating Budget, including debt service & pipeline | 17%                            | 100%   |
| 2                               | Water Rate Stabilization Fund | Budget Water Revenue                                | 10%                            | 20%    |
| 3                               | Emergency Fund                | Operating Budget, including debt service & pipeline | 25%                            | 25%    |
| 4                               | Drought Management Fund       | Budgeted Consumption Revenue                        | 25%                            | 50%    |
| 5                               | Equipment Replacement Fund    | Accumulated Equipment Depreciation                  | Current                        | 100%   |
| 6                               | Long Term Capital Fund        | 10 Year Capital Plan                                | 10%                            | 100%   |
| Restricted                      |                               |   |                                |        |
| Sick/Annual Leave Fund          |                               |   | As required by contract or law |        |
| Facility Capacity Fund          |                               |   | As required by contract or law |        |
| Bond Reserve Fund               |                               |   | As required by contract or law |        |
| Debt Proceeds Construction Fund |                               |   | As required by contract or law |        |
| PFD Reserve Fund                |                               |   | As required by contract or law |        |

### **Target Fund Levels:**

The Board of Directors shall establish a stated target fund level for each non-restricted reserve fund.

### **Annual Evaluation:**

The CFO shall perform a review and analysis of each designated reserve fund for presentation to the Board of Directors at a public meeting upon the occurrence of the following:

1. Upon consideration by the Board of Directors during the Board meeting in July.
2. Upon any significant change to and/or expenditure(s) from a designated reserve fund.
3. Upon determination that a fund balance is less than the established target fund level for a designated reserve fund.

# **OPERATING FUND**

## **Fund Purpose:**

The purpose of the Operating Fund is to accumulate sufficient reserve funds necessary to satisfy the general cash flow demands and requirements of the District. This reserve fund will preserve credit worthiness, ensure adequate financial resources are available for timely payment of District obligations, and provide liquidity throughout the fiscal year.

## **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Operating Fund”.
2. The Operating Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District’s annual budget the Board may transfer funds to/from the Operating Fund.
4. The District Manager/CFO is authorized to approve the disbursement of Operating Funds for payment of expenses that have prior board approval.
5. The Operating Reserve Fund may be invested in financial institutions and instruments which maintain the highest level of liquidity, such as checking, savings and LAIF.
6. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Operating Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 17% of operational budget including debt service and pipeline, and a maximum of 100%, unless otherwise directed by the Board of Directors at a public meeting. This target fund level was established based upon the following general guidelines:

1. The District shall maintain a balance in the general fund equal to approximately two (2) to three (3) months budgeted expenditures for the fiscal year.
2. For the purpose of this policy, budgeted expenditures shall include all expenditures associated with the following:
  - a. Operating Expenses
  - b. District Installed Pipeline Projects
  - c. Debt Service

# **WATER RATE STABILIZATION FUND**

## **Fund Purpose:**

The purpose of the Water Rate Stabilization Fund is to establish a means to provide more stable water service charges to the District's customers. The Water Rate Stabilization Fund will be used to accumulate reserves for District use during periods of unanticipated fluctuations in general fund revenues. Unanticipated fluctuations in general fund revenues include, but are not limited to, periods of seasonal weather changes. The Water Rate Stabilization Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and will provide for more stable rates.

## **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Water Rate Stabilization Fund".
2. The Water Rate Stabilization Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Water Rate Stabilization Fund.
4. The District Manager/CFO is authorized to approve the disbursement of Water Rate Stabilization Funds for payment of expenses that have prior board approval.
5. The Water Rate Stabilization Fund may be invested in financial institutions and instruments.
6. All investment earnings from the Water Stabilization Fund shall be credited to the District's operating fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Water Rate Stabilization Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 10% of water rate revenue (including service charge and consumption revenue), and a maximum of 20%, unless otherwise directed by the Board of Directors at a public meeting.

# **EMERGENCY RESERVE FUND**

## **Fund Purpose:**

The purpose of the Emergency Fund is to accumulate sufficient financial reserves necessary to ensure a timely response by the District to natural disasters and/or other emergencies. This reserve fund will provide for rapid response and continued operation of the District's essential services during periods of natural disasters and/or other emergencies.

## **Policy:**

In order to achieve the objectives of this policy the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Emergency Fund".
2. The Emergency Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Emergency Fund.
4. The Emergency Fund shall be expended solely for the purpose of responding to and maintaining District operations during a natural disaster and/or emergency.
5. The District Manager/CFO is authorized to approve the disbursement of Emergency Reserve Funds for payment of expenses that have prior board approval.
6. Upon expenditure of any Emergency Funds, the CFO shall notify the Board of Directors at the earliest possible opportunity.
7. Expenditures from this designated reserve fund which are subsequently recovered, either partially or fully, from FEMA, OES, insurance and/or any other sources, said revenue shall be utilized solely for the purpose of refunding the Emergency Reserve Fund.
8. All investment earnings from the Emergency Fund shall be credited to the District's operating fund.
9. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Emergency Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 25% of operational budget including debt service and pipeline, unless otherwise directed by the Board of Directors at a public meeting.

# **DROUGHT MANAGEMENT FUND**

## **Fund Purpose:**

The purpose of the Drought Management Fund is to establish a means to provide more stable water service charges to the District's customers. The Drought Management Fund will be used to accumulate reserves for District use during periods of unanticipated reductions in general fund revenues. Unanticipated reductions in general fund revenues include, but are not be limited to, periods of drought. The Drought Management Reserve Fund will reduce and/or eliminate the need for unanticipated changes to water service charges, and provide for more stable rates.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Drought Management Fund".
2. The Drought Management Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Drought Management Fund.
4. The District Manager/CFO is authorized to approve the disbursement of Drought Management Funds for payment of expenses that have prior board approval.
5. All investment earnings from the Drought Management Fund shall be credited to the District's operating fund.
6. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Drought Management Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 25% and a maximum of 50% of budgeted consumption revenue, unless otherwise directed by the Board of Directors at a public meeting.

# **LONG TERM CAPITAL FUND**

## **Fund Purpose:**

The purpose of the Long Term Capital Fund is to accumulate sufficient reserve funds necessary to ensure timely acquisition, replacement and upgrade of the District's water system infrastructure and capital assets.

## **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Long Term Capital Fund".
2. The Long Term Capital Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Long Term Capital Fund.
4. Monies transferred into the Long Term Capital Fund shall be expended solely for the construction of new and/or replacement water system infrastructure and capital assets.
5. The District Manager/CFO is authorized to approve the disbursement of Long Term Capital Funds for payment of expenses that have prior board approval.
6. All investment earnings from the Long Term Capital Fund shall be credited to the District's operating fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **Target Fund Level:**

The target fund level for the Long Term Capital Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of 10% of the 10 year capital budget total and a maximum of 100%, unless otherwise directed by the Board of Directors at a public meeting.



# EQUIPMENT REPLACEMENT FUND

## Fund Purpose:

The purpose of the Equipment Replacement Funds is to accumulate sufficient reserves necessary to ensure timely replacement and upgrade of the District's vehicles, mobile equipment, and appurtenances thereto. Safe, reliable and up-to-date vehicles and equipment, in good working order, are essential for the provision of public services in a timely and professional manner. Due to the need for depreciation and replacement of vehicles and other mobile equipment it is desirable for the District to set aside funds on an on-going basis for this purpose.

## Policy:

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Equipment Replacement Fund".
2. The Equipment Replacement Reserve Fund shall be designated as a non-restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Equipment Replacement Fund.
4. Funds transferred from the Equipment Replacement Fund shall be expended solely for the purpose of replacement and upgrade of existing District vehicle, mobile equipment and appurtenances thereto.
5. The District Manager/CFO is authorized to approve the disbursement of Equipment Replacement Funds for payment of expenses that have prior board approval.
6. The allocation amount shall be reviewed every five (5) years for appropriate vehicle and equipment retention schedules, depreciation schedules and acquisition costs.
7. All investment earnings from the Equipment Replacement Reserve Fund shall be credited to the District's operating fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## Target Fund Level:

The target fund level for the Equipment Replacement Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of current year equipment depreciation and maximum of total equipment accumulated depreciation, unless otherwise directed by the Board of Directors at a public meeting.

## **SICK/ANNUAL LEAVE FUND**

### **Fund Purpose:**

The purpose of the Sick/Annual Leave Funds is to accumulate sufficient reserves necessary to ensure payment of outstanding accrued sick and/or annual leave upon a District employee's separation of service from the District. Pursuant to the current Memorandums of Understanding by and between the District and designated employee representative bargaining groups, District employees may accumulate annual leave in accordance with a maximum accumulation schedule. Any employee separated from the service of the District shall receive pay for all accumulated annual/sick leave in accordance with designated schedules. It is desirable for the District to set aside funds on an on-going basis for this purpose.

### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Sick/Annual Leave Fund".
2. The Sick/Annual Leave Fund shall be designated as a restricted reserve fund.
3. During the adoption of the District's annual budget the Board may transfer funds from the Operating Fund to the Sick/Annual Leave Fund.
4. Monies transferred into the Sick/Annual Leave Fund shall be expended solely for the purpose of compensation to District employees upon separation of service from the District for accumulated sick/annual leave.
5. The District Manager/CFO is authorized to approve the disbursement of Sick/Annual Leave Fund Funds for payment of expenses that have prior board approval.
6. All investment earnings from the Sick/Annual Leave Fund shall be credited to the District's operating fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Sick/Annual Leave Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of the current accrued vacation and sick liability, unless otherwise directed by the Board of Directors at a public meeting.

## **FACILITY CAPACITY FEE FUND**

### **Fund Purpose:**

The purpose of the Facility Capacity Fund is to collect fees from new service connections (specific connection fees) for capacity increasing related projects. This reserve fund will provide capital funds for projects that increase capacity to the District

### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Facility Capacity Fee Fund”.
2. The Facility Capacity Fee Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all Capacity Fee monies from the Operating Fund to the Facility Capacity Fee Fund upon collection.
4. Approval for expenditures from the Facility Capacity Fee Fund shall require the affirmative approval by the Board of Directors at a duly noticed public meeting.
5. All investment earnings from the Facility Capacity Fee Fund shall be credited to the District’s operating fund.
6. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

## **BOND RESERVE FUND**

### **Fund Purpose:**

The purpose of the Bond Reserve Fund is governed by legal bond covenants for the District's revenue bonds. Bond covenants require that this fund be maintained at a level sufficient to fund the maximum annual debt service payments. These funds are held by the bond trustee during the term of the bonds and are to be used in the event that the District is unable to meet its required semi-annual debt service obligation.

### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the "Debt Reserve Fund".
2. The Debt Reserve Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all Bond Reserve monies from the Operating Fund to the Bond Reserve Fund upon collection.
4. Bond Reserve Funds for each revenue bond issue will be used to make the last two semi-annual debt service payments for that issue.
5. The District Manager/CFO is authorized to approve the expenditure of Bond Reserve Funds, with prior approval of the Board of Directors, for the purpose expressly stated herein.
6. Reserve funds related to state loans shall be treated identically to revenue bond reserve funds.
7. All investment earnings from the Debt Reserve Fund shall be credited to the Debt Reserve Fund.
8. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Debt Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of the legal requirement by law.

## **DEBT PROCEEDS CONSTRUCTION PROJECT FUND**

### **Fund Purpose:**

The purpose of the Debt Proceeds Construction Project Fund is governed by loan contracts for a specific Project. Bond documents require that these funds be used for the specific project.

### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “Debt Proceeds Construction Project Fund”.
2. The Debt Proceeds Construction Project Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all Bond Proceed monies from the Operating Fund to the Bond Proceeds Construction Project Fund upon collection.
4. Debt Proceeds Construction Project Fund will be used to construct the specific project as previously approved by the Board.
5. The District Manager/CFO is authorized to approve the expenditure of Debt Proceeds Construction Project Funds, with prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the Debt Proceeds Construction Project Fund shall be credited to the Debt Proceeds Construction Project Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the Debt Proceeds Construction Project Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to the remaining bond proceeds borrowed for a specific project.

## **PFD RESERVE FUND**

### **Fund Purpose:**

The purpose of the PFD Reserve Fund is governed by legal contract between the District and the PFD. The contract requires that funds spent must be used to install or repair fire hydrants. The funds can also be used to increase fire flows by replacing water pipes with a specific agreement between the PFD and the District.

### **Policy:**

In order to achieve the objectives of this policy, the Board of Directors shall adhere to the following guidelines:

1. This reserve fund shall be known as the “PFD Reserve Fund”.
2. The PFD Reserve Fund shall be designated as a restricted reserve fund.
3. The District shall transfer all PFD Reserve monies from the Operating Fund to the PFD Reserve Fund upon collection.
4. PFD Reserve Funds will be used for the maintenance and installation of the PFD hydrant system, and to increase fire flows by replacing water pipes with specific agreement between PFD and the District.
5. The District Manager/CFO is authorized to approve the expenditure PFD Reserve Funds, with prior approval of the Board of Directors, for the purpose expressly stated herein.
6. All investment earnings from the PFD Reserve Fund shall be credited to the PFD Reserve Fund.
7. This policy shall be reviewed on an annual basis for long-term adequacy and use restrictions.

### **Target Fund Level:**

The target fund level for the PFD Reserve Fund is to maintain a balance, as of July 1<sup>st</sup> of each fiscal year, equal to a minimum of the contract requirement.

## **CHAPTER 14.C**

### **PARADISE IRRIGATION DISTRICT DEBT MANAGEMENT POLICY**

#### **POLICY STATEMENT**

This policy documents the goals of the Paradise Irrigation District (“District”) for the use of debt instruments and provides guidelines for the use of debt for financing District water, sewer and recycled water infrastructure and project needs. The District’s overriding goal in issuing debt is to respond to and provide for its infrastructure, capital project and other financing needs while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The District issues debt instruments, administers District held debt proceeds and makes debt service payments, acting with prudence, diligence and attention to prevailing economic conditions.

The District will pay for all infrastructure, projects, and other financing needs from a combination of current revenues, available reserves, if any, and prudently issued debt. The District believes that debt can provide an equitable means of financing projects for its customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to meet financing needs (i) if it meets the goals of equitable treatment of all customers, both current and future; (ii) if it is the most cost-effective means available; (iii) if it is fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (iv) if there are other important policy reasons therefor. The District will not issue debt without the approval of the Board of Directors (“Board”).

#### **Purpose and Use of Debt**

The District will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term improvements and thus ensure that existing and future users pay their fair share. Long-term improvements include the acquisition of land, facilities, infrastructure, and supplies of water; and enhancements or enlargements to existing capacity and facilities for obtaining, importing, transporting and delivering additional quantities of water. These improvements are typically included in the District’s, Capital Improvement Budget and Water Master Plan. Bond proceeds can be issued to fund the planning, design, land acquisition, construction, attached fixtures or equipment and moveable pieces of equipment, or other costs as permitted by law.

#### **Purpose of Policy**

The purpose of this debt management policy is to:

- Establish parameters for issuing debt
- Provide guidance to decision makers:
  - With respect to all options available to finance infrastructure, capital projects, and other financing needs
  - So that the most prudent, equitable and cost effective method of financing can be chosen
- Document the objectives to be achieved both prior to issuance and subsequent to issuance
- Promote objectivity in the decision-making process
- Facilitate the financing process by establishing important policy decisions in advance

The District will adhere to the following legal requirements for the issuance of public debt:

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*Adopted 05/17/2017*

- The state law which authorizes the issuance of the debt
- The federal and state laws which govern the eligibility of the debt for tax-exempt status
- The federal and state laws which govern the issuance of taxable debt
- The federal and state laws which govern disclosure, sale, and trading of the debt both before and subsequent to issuance

## **Types of Debt**

Revenue Bonds, Notes, Certificates of Participation, special tax or special assessment bonds, capital leases, commercial paper, bank loans, direct placements and lease-purchase financings will be treated as debt and subject to these same policies. The Board of Directors may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Management Policy.

## **I. GENERAL PROVISIONS**

The District will provide for a periodic review of its financial performance and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting, and rate setting processes. Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget. The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible interest rates.

The District's Debt Management Policy, the Reserve Policy, and the Investment Policy are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such, the following principles outline the District's approach to debt management:

- The District will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.
- The District will not issue debt to cover operating needs, unless specifically approved by the Board.
- Debt issuance for a capital project will not be considered unless such project has been incorporated into the District's adopted Capital Improvement Budget or as otherwise approved by the Board.
- Each proposal to issue debt will be accompanied by an analysis that demonstrates conformity to this Policy. This analysis will address the purpose for which the debt is issued and the proposed debt structure.

## **II. CONDITIONS FOR DEBT ISSUANCE**

The following guidelines formally establish parameters for evaluating, issuing, and managing the District's debt. The guidelines outlined below are not intended to serve as a list of rules to be applied to the District's debt issuance process, but rather to serve as a set of practices to promote prudent financial management.

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*Adopted 05/17/2017*



In issuing debt, the District's objectives will be to:

- Achieve the lowest cost of capital
- Ensure ratepayer equity
- Maintain the adopted credit rating strategy, or a more effective credit rating strategy, and access to credit enhancement
- Preserve financial flexibility

### **Standards for Use of Debt Financing**

When appropriate, the District will use long-term debt financing to achieve an equitable allocation of capital costs/charges between current and future system users, to provide more manageable rates in the near and medium term and to minimize rate volatility. The District shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life. Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

### **Debt Capacity**

There is no specific provision within the California Government Code that limits the amount of debt that may be issued by the District. The District's future borrowing capability is limited by the debt coverage ratio and additional debt limitations required by the existing bond covenants.

### **Financing Criteria**

Each debt issuance should be evaluated on an individual basis within the context of the District's overall financing objectives and current market conditions. The District will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

*Credit Enhancement* – The District will consider the use of credit enhancement on a case-by-case basis. Only when clearly demonstrable savings can be realized shall credit enhancement be utilized.

*Cash-Funded Reserve vs. Surety* – If the issuance of debt requires a cash-funded debt service reserve fund, the District may purchase a surety policy or replace an existing cash-funded debt service reserve fund when deemed prudent and advantageous. The District may permit the use of guaranteed investment agreements for the investment of reserve funds pledged to the repayment of any of its debt when it is approved by the Board.

*Call Provisions* – In general, the District's securities should include optional call provisions. The District will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option.

*Additional Bonds Test/Rate Covenants* – The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and this policy.

*Short-Term Debt* – The District may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future bonding capacity. The District may also utilize short-term

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*Adopted 05/17/2017*

financing for the acquisition and construction of equipment and other facilities having short-term useful lives.

*Variable Rate Debt* – Variable rate debt products are rolling series of short-term investments that are resold periodically and are therefore priced at the short-end of the yield curve at low interest rates. If an issuer accepts the risks inherent in variable interest rates, the issuer can take advantage of some of the lowest rates available on the market. Variable rate debt may be appropriate for the District’s portfolio, especially in an environment where increased interest earnings on invested funds offset the increased cost of variable rate debt. Variable rate debt products include variable rate demand obligations, commercial paper, and auction rate securities. The District may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable rate debt, the District will analyze the risks associated with the variable rate debt products, including derivative products.

*Use of Variable Rate Debt* – The District may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable rate debt, the District will analyze, among other things, the risk associated with the variable rate debt and the impact on the District’s overall portfolio. Before issuing variable rate debt, the District will analyze its cash position; the District will not issue variable rate debt in an amount that exceeds 115% of its unrestricted cash position at the time of issuance of any variable rate debt.

*Investment of Bond Proceeds* - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction. The District will seek to maximize investment earnings within the investment parameters set forth in the respective debt financing documentation. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing arbitrage/rebate position, and evaluating alternative debt structures and refunding savings on a “net” debt service basis, where appropriate.

## **Refinancing Outstanding Debt**

The Chief Financial Officer (“CFO”) shall have the responsibility to evaluate potential refunding opportunities. The District will consider the following issues when analyzing potential refinancing opportunities:

*Debt Service Savings* – The District shall establish a target savings level greater or equal to 3% of the par of debt refunded on a net present value (NPV) basis (after payment of all costs associated with the issuance). This figure will serve only as a guideline and the District may determine that a different savings target is appropriate; the District shall evaluate each refunding opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

- Remaining time to maturity
- Size of the issue
- Current interest rate environment
- Annual cash flow savings
- The value of the call option
- Revision of restrictive or onerous covenants
- Other factors approved by the applicable member District

*Restructuring* – The District may seek to refinance a bond issue on a non-economic basis, in order to restructure debt, to mitigate irregular debt service payments, accommodate revenue shortfalls, to achieve a proper matching of debt service with revenues, release reserve funds, or comply with and/or eliminate rate/bond covenants.

*Term/Final Maturity* – The District may consider the extension of the final maturity of the refunding bonds in order to achieve a necessary outcome, provided that such extension is legal. The term of the debt should not extend beyond the reasonably expected useful life of the asset being financed. The District may also consider shortening the final maturity of the bonds. The remaining useful life of the assets and the concept of inter-generational equity will guide these decisions.

*Defeasance* – Defeasance is when a debt financing is refinanced or paid off through an escrow where certain authorized investments and cash are deposited to pay the redemption price, principal and interest until such time the debt is fully redeemed. On the date when proceeds are deposited into the escrow, the debt will no longer be deemed outstanding and is defeased.

There are two types of defeasances: legal and economic. A legal defeasance ends all of the rights and interest of the debt holders provided under the governing documents, including the pledge of revenues or other security interest. An economic defeasance does not end the rights and interest of the debt holders until such debt is fully redeemed.

When evaluating an economic versus legal defeasance, the District shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The District shall take all necessary steps to optimize the yield on its refunding escrows investments and avoid negative arbitrage.

## **Outstanding Debt Limitations**

Prior to issuance of new debt, the District shall consider and review the latest credit rating reports and guidelines to ensure the District's credit ratings and financial flexibility remain at levels consistent with the most highly rated comparable public agencies.

## **Method of Issuance**

The District will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

*Competitive Sale* – In a competitive sale, the District's debt shall be awarded to the bidder providing the lowest true interest cost ("TIC"), as long as the bid adheres to the requirements set forth in the official notice of sale.

*Negotiated Sale* – The District recognizes that some bond issues are best sold through negotiation with a selected underwriter or team of underwriters. The District has identified the following circumstances below in which this would likely be the case:

- Issuance of variable rate or taxable bonds
- Complex structures or credit considerations (such as non-rated bonds), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders, unique/proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process

- Market volatility, such that the District would be better served by flexibility in the timing of its sale, such as in the case of a refunding issue wherein the savings target is sensitive to interest rate fluctuations, or in a changing interest rate environment
- When an underwriter has identified new financing opportunities or presented alternative structures that financially benefit the District
- As a result of an underwriter's familiarity with the project/financing, that enables the District to take advantage of efficiency and timing considerations

*Private Placement* – From time to time the District may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

### **Market Communication, Debt Administration and Reporting Requirements**

*Responsibilities* – For purposes of this policy the District Manager delegates responsibility to the CFO or his/her successor in position and in title.

*Rating Agencies* – The CFO shall be responsible for maintaining the District's relationships with Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investors Service, as appropriate. The District shall, from time to time, deal with one, two or all of these agencies as circumstances dictate. In addition to general communication, the CFO shall (1) meet, (either in person or via phone) with credit analysts at least annually, and (2) prior to each competitive or negotiated sale, offer conference calls or meeting(s) with rating analysts in connection with the planned sale.

*Observance of Debt Covenants* – The CFO will periodically ensure that the District is in compliance with all legal covenants for each debt issue.

*Continuing Disclosure* – The CFO will comply for all debt issued with Rule 15c2-12(b)(5) by required filing as covenanted in each debt issue's Continuing Disclosure Agreement. The CFO will maintain a calendar with the reporting deadlines and procedures for dissemination of annual reports and notices.

*Record Keeping* – A copy of all debt-related records shall be retained at the District's offices or in an approved storage facility. At minimum, these records shall include all official statements, bid documents, bond documents/transcripts, resolutions, trustee statements, leases, and title reports for each financing (to the extent available). To the extent possible, the District shall retain an electronic copy of each document, preferably in PDF or CD-ROM format.

*Arbitrage Rebate* – The District will comply with the administratively adopted policies and procedures regarding tax-exempt financings and tax-exempt financed property, as well as the tax and arbitrage certifications associated with each issue.

*Internal Controls for Use of Proceeds* – To ensure that the proceeds of debt issuances are used in accordance with the intended uses, staff will perform annual audits.