FINANCE COMMITTEE

REGULAR MEETING
Thursday, November 1, 2018 - 10:00 AM to 12:00 PM
1000 Main Street Cambria, CA 93428

AMENDED ON 11/1/2018 TO INCLUDE 3.C. ATTACHMENTS

AGENDA

A. CALL TO ORDER

B. ESTABLISH QUORUM

C. CHAIRMAN'S REPORT

1. PUBLIC COMMENT

Members of the public may now address the Committee on any item of interest within the jurisdiction of the Committee but not on its agenda today. In compliance with the Brown Act, the Committee cannot discuss or act on items not on the agenda. Each speaker has up to three minutes. Speaker slips (available at the entry) should be submitted to the District Clerk.

2. CONSENT AGENDA

A. Consideration to Approve the October 11, 2018 Regular Meeting Minutes

3. REGULAR BUSINESS

A. Discussion Regarding Progress Made on Budget, Allocated Overhead and Reserve Fund Policies

B. Discussion Regarding Progress Made on Inter-fund Loan Policy

C. Discussion and Consideration Regarding the Infrastructure Committee's CIP Priorities

D. Discussion and Consideration of Development of a Debt Policy

4. FUTURE AGENDA ITEMS

5. ADJOURN

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FINANCE COMMITTEE

REGULAR MEETING
Thursday, October 11, 2018 - 10:00 AM to 12:00 PM
1000 Main Street Cambria, CA 93428

MINUTES

A. CALL TO ORDER

Chairman Pierson called the meeting to order at 10:06 a.m.

B. ESTABLISH QUORUM

A quorum was established.

Committee members present: David Pierson, Cindy Steidel and Dewayne Lee.

Amanda Rice arrived at 10:48 a.m.

Committee members absent: Ted Siegler.

Staff present: Acting General Manger Monique Madrid, Finance Manager Pamela Duffield, Interim Finance Manager Alleyne LaBossiere, District Engineer Bob Gresens and Deputy District Clerk Haley Dodson.

Public present:
Crosby Swartz
Laura Swartz
Leslie Richards
Harry Farmer
Donn Howell
Paul Nugent
Cheryl McDowell

C. CHAIRMAN'S REPORT

There was no Chairman's report.

Chairman Pierson welcomed Pamela Duffield to the Finance Committee and to the District.

1. PUBLIC COMMENT

Public Comment:
Laura Swartz: there was going to be separate account for operational fees. How's that going to be done?

Mr. LaBossiere responded that a general ledger account can be setup to track revenue amounts.

Public Comment:

Cheryl McDowell: Is there an income and expense report for each department?

Committee member Steidel stated the Infrastructure Committee is looking into Tyler Incode modules.

Mr. LaBossiere stated it's already being done. It's in the budget report by total and account number.

Chairman Pierson responded she's looking for a separate expense report.

Mr. LaBossiere responded that the current system doesn't allow for it. It's a manual process.
Committee member Lee asked how close are we to switching to Tyler Incode?

Mr. LaBossiere said the starting process will begin around December 1st.
Committee member Steidel asked what modules will be used from Tyler Incode?
Mr. LaBossiere responded we will use the same ones we are currently using.

Mr. Gresens stated the project cost accounting module is included in the original purchase. The fixed asset module is an additional cost. The Infrastructure Committee may have more discussion on it. The maintenance feature isn't included and it's an additional cost.

Committee member Steidel asked how much is the maintenance feature?

Mr. Gresens responded the work order module is $6k and $3k annually. This doesn't include fixed assets.

Public Comment:

Donn Howell: KeepTrak is cheap for a single user. We need to review it in greater detail. It's going to be awhile before the new software is implemented. I've never seen an implementation plan so laid out. We can anticipate a 10-month timeframe for implementation. I think going forward with Tyler Incode is good, I was initially against it.
Paul Nugent: He has questions about fuel allocation and the way fuel is tracked.

Mr. LaBossiere stated each vehicle has a fuel card. It is tracked by card as long as the card stays with the vehicle.

Public Comment:
Paul Nugent: Is there a crosscheck for mileage?

Mr. LaBossiere responded no.

Public Comment:
Paul Nugent: Jason said there was a water leak that couldn't be addressed until Sunday. What's the timeline for an emergency?

Ms. Madrid responded the District would respond to a leak provided we know about it and depend on when we were notified. Our response to water leaks and wastewater spills is a reasonable amount of time which is estimated to be 45 minutes.

Public Comment:
Laura Swartz: We are looking for a new general manager. There were two separate jobs when we came here, the head of the pipes and a town manager. Mr. Gruber took over both jobs but there was too much power in one place and wasn't economically feasible. Is there any thought about going back to the other way and not paying them as much? The power will be separated, and we'd have people with skills to manage the town and pipes.

Chairman Pierson responded I'm not sure that's true. There were two people reporting to the Board of Directors?

Public Comment:
Laura Swartz: I'm not sure. Tammy was the overall manager and the other person had the expertise to manage pipes. I don't know if they reported to the general manager.
Leslie Richards: Bryan Bode was the services manager.

Chairman Pierson responded the board doesn't want two direct reports. They want a general manager. If we hire someone who is wonderful in utilities, they may not want a chief engineer or manager, they may want a wastewater or water person reporting to them. We allow them to do that. We will ask these questions during interviews.

Public Comment:
Laura Swartz: As we hire a new GM, what direction will we take? Jerry had so much knowledge on pipes and we were dependent on him for two different positions.

Ms. Madrid responded that you talk about the power. The Chief Plant Operator and Supervisors report to the District Engineer and are required to report to the regulatory agencies as far as permitting. The general manager oversees them as far as CCSD policies. There is a division of power. Jerry took on utility manager duties and Bob took on some of the utility positions.

Public Comment:
Leslie Richards: Bob, you're retiring this year? Will the district replace your position with a fulltime engineer?

Mr. Gresens responded I'm strongly considering it at this point.

Chairman Pierson responded we will let the general manager decide the structure.

Public Comment:
Paul Nugent: I sent an email to board@cambriacsd.org but it went to a staff member and as far as transparency and open communication, why is it going to a staff member?

Chairman Pierson responded that the director's emails are listed on the website.

Public Comment:
Paul Nugent: If we are looking for talent, specify the role you're looking for and let the talent come to it.

Chairman Pierson responded that's not what we are going to do. We are getting together a posting to go out on websites and magazines and it will include the duties & responsibilities and a number of knowledge and skills required and then we will direct them to the website where we will have the full job description. We will get resumes and try to match them up. The people that match up, we will interview. These questions should be going to the full board, not us.

Public Comment:
Leslie Richards: We were encouraged to come to the Infrastructure and Finance Committees to ask questions.

2. CONSENT AGENDA

A. Consideration to Approve the September 13, 2018 Regular Meeting Minutes

Chairman Pierson stated Haley did a marvelous job on the minutes.

Committee member Lee motioned to approve the meeting minutes.

Committee member Steidel seconded the motion.

The motion was approved: 3-Ayes (Lee, Steidel, Pierson), 0-Nays, 2-Absent (Rice and Siegler)

3. REGULAR BUSINESS

A. Discussion Regarding Progress Made on Budget, Allocated Overhead and Reserve Fund Policies and the Finance Manager's Input on the Policies

Chairman Pierson introduced the item. The allocated overhead is addressed in the budget policy as currently written.

Chairman Pierson asked Ms. Duffield to provide her suggested budget policy changes to the committee.

Mrs. Duffield provided her revisions to the committee.

Chairman Pierson stated the full board will be looking at a reorganization of the standing committees in December and this will be a time we can address the timing of the meetings.

Committee member Rice stated Ms. Madrid has a grasp of what the committee is looking for.

Chairman Pierson suggests that Ted, Monique and Pam revise the final paragraph.

The committee had a discussion regarding reserve funds.

Public comment:

Laura Swartz: It's important to know what the EWS is costing us.
Cheryl McDowell: Can you ask to define their bills, so you can chart it.
Leslie Richards: You need to refer this question to district counsel.

Chairman Pierson stated we must account for the SWF and it's being done now.

Committee member Rice stated we need a vehicle replacement program.

Chairman Pierson stated we need to update the vehicle use policy.

Chairman Pierson recommends the committee skip the reserve policy and move onto the next item.

The committee agreed.

B. Discussion and Consideration Regarding Developing an Inter-fund Loan Policy

Chairman Pierson introduced the item and stated we need an adhoc committee to revise the inter-fund loan policy. At the August board meeting staff gave 4 examples of inter-fund loan policies. Would anyone like to volunteer to revise the policy?

Committee member Rice stated that Vice Chair Siegler had to take on the budget policy and I don't want to take it on with everything going on.

Chairman Pierson volunteered to revise the policy.

C. Discussion and Consideration Regarding New Budget Based on Rates Passing or Not Passing

Chairman Pierson introduced the item.

Mrs. Duffield stated February is the appropriate month to do this.

Public Comment:
Harry Farmer: There is $200k allocated for influent screen, $800k for the rest of the year if the rate increases approved. It's roughly a million combined but the rate increase determined if we were going to spend $800k.

Committee member Rice stated we can't shut off water for nonpayment soon. You must give them a sixty-day notice.

D. Discussion and Consideration of Structure of Finance Standing Committee

Chairman Pierson introduced the item and stated the Infrastructure Committee discussed it. There's talk of going to more members, less board members being on the committee and consolidation. Any thoughts?

Committee member Lee stated we would be in a better position if we can have a few more members and not be so constrained. The only advantage to putting the committees together is the administrative part. It's an expense every time we have a meeting. If we can consolidate that, it would streamline it and have several subcommittee meetings and bring it to the full committee to propose it to the board. We are trying to save money and time for the board and get more public input. The more ideas we have, the better we are at making suggestions.

Committee member Steidel responded I support Committee member Lee and being able to reduce costs. The same members of the public attend both meetings and it would be proactive by having a single committee with working groups.

Chairman Pierson agreed.

Public Comment:
Cheryl McDowell: It would be an asset to hear opinions and constructive criticism from employees.
Paul Nugent: If i were a CCSD employee, rate payer and customer and I wanted to be involved in the process, how would I do that?

Chairman Pierson responded if the agenda calls for items that we need staff input on, yes. But, most of the time they need to be out serving the customers. It would be by invitation only.

Committee member Rice stated a larger committee is good and there could be an advantage to combining them both. I spent a year and couple months on a water emergency alternatives committee and that's all we did. It took us time to get up to speed. There is some advantage to the specialty factor. I like larger committees and working groups, which makes it more of a collaborative effort and not putting it on staff to bring materials for the basis of discussion. I really do think that having at least one board member is critical and I'm going to say that it's difficult since the Vice Chair isn't a board member. It might be helpful for it to be the President and Vice President as Chairman and Vice Chair. I'd like to call Los Osos and see how they do it.

Committee member Steidel stated another option is not have a board member participating on the committees.

Committee member Rice responded I think it's good for a board member to participate so they can try and keep the committee on track.

Committee member Steidel responded that we had a strong Chairman and were kept on track.

Committee member Lee stated I think this committee should function as a working process of the board. We should only be discussing and doing the work the board wants us to do.

Committee member Rice stated there aren't reports from the committee at the board meetings. That would be easily be accomplished by adding the minutes to the board agenda.

Chairman Pierson asked if that's possible?

Ms. Madrid responded yes.

Public Comment:
Donn Howell: I think separate committees are a good idea. We had a motion to submit a report. The committee membership should be increased to 7, with one board member being an ex officio. The board member would be a liaison to the full board. In terms of chairing and voting, we all felt more comfortable if we had the resource but didn't feel constrained by the board member.
Crosby Swartz: They can set a meeting schedule and frequency.
Leslie Richards: You have Finance and Infrastructure Committees and I suggest you keep them separate. Can someone can take the minutes?
Paul Nugent: I can probably organize people to share that. I could totally do it once or twice a month.

Committee member Rice stated we need a self-appointment process like PROS and the water emergency committee.

E. Discussion and Consideration Regarding Adding an Additional Ad Hoc Committee for Grant Funding

Chairman Pierson tabled this item until February. The board approved spending 4,500 to eCivis to get their service for grant notifications. I'm currently the ad hoc committee looking for grant opportunities for eCivis.

Public Comment:
Cheryl McDowell: Do we have a grant writer?

Committee member Steidel suggested asking the community if they'd like to provide grant writing assistance.

Public Comment:
Leslie Richards: You should look again in February. The deadlines are the first of the year.

4. FUTURE AGENDA ITEMS

There were no future agenda items.

5. ADJOURN

Chairman Pierson adjourned the meeting at 12:14 p.m.

Regular Business Item 3.A. Attachment

CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

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CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

I. PURPOSE

It is the policy of the Cambria Community Services District that an annual Budget will be prepared, presented to the Board of Directors for approval and used as the guide for District spending decisions each year.

The annual budget serves multiple purposes:

- Translate District plans into financial estimates of the impact of those plans.
- Provide a template for resource allocation.
- Establish spending controls consistent with Board objectives.
- Provide a basis for evaluation of actual spending during the year.
- Provide a guidepost for expectations and a basis for determining when actual events are inconsistent with those expectations.

With its approval, the Board of Directors authorizes General Manger to plan for and take actions that are consistent with the Budget, within the limits of other Board policies. Prior to taking action that is inconsistent with either the Budget of other policies, the General Manager will raise the issue for discussion and approval at a public meeting.

II. PROCEDURES

A. Plans, goals, resources

A budget is a financial manifestation of plans and goals. In order to be meaningful, the Annual Budget must include a discussion of District goals and objectives, plans to accomplish those objectives (in the case of multi-year objectives the Annual Budget will address what will be accomplished in the relevant year), available resources and discussion of trade-offs between competing objectives and available resources.

Plans and objectives must be consistent with overall Board policy and direction. They should be developed in such a way that they are measurable. During the year and following each year, the General Manager will report on achievements and gaps between what was achieved and initial plans and objectives. These reports will include the financial implications of these achievements and gaps and plans for remediation if necessary. Interim reports will be presented on at least a quarterly basis.

B. Calendaring

The Annual Budget must be prepared and presented to the Board in a timely fashion. Except under exceptional circumstances, requiring approval by the Board, the Budget must be approved prior to the beginning of each fiscal year. The typical schedule will include the following:

- In April, the Board must consider and approve any changes to rates for the following year.

- Preliminary budget submitted for review by the Standing Finance Committee at the beginning of May.
- Revised preliminary budget, incorporating input from the Standing Finance Committee where appropriate, submitted to the Board at its regular May meeting.
- Annual Budget, incorporating input from the Board, submitted for approval at the regular June Board meeting.
- Special meeting(s) of the Standing Finance Committee and/or the Board may be necessary to resolve difficult issues prior to finalizing the Annual Budget.

C. Mid-year Budget Update

If there is an event or events that materially impacts the assumptions in the Annual Budget, the General Manager will propose and present a midyear update for approval. Any midyear update will be prepared on a schedule that leads to approval as soon as practical after the regular December Board meeting, but no later than the regular February Board meeting. Changes should be limited to the impacts of the triggering event on plans, objectives and financial performance.

D. Organization chart and headcount

Budget documents will include both an organization chart and a full-time equivalent count of employees . The full-time equivalent of employees will, at a minimum, display the number of employees at the end of the two years prior to the current budget (for example 2016-17 and 2017-18 for the 2018-19 budget) as well as planned headcount at the end of the current budget year.

Full-time equivalent will only include the employee count. Contractors, Consultants and Temporary employees or agencies will be represented to give a clear picture of the number of staffing required to fulfill the need to the District. Vacant positions will also be identified.

Potential open positions that will not be filled due to budget constraints should also be noted. New positions require justification and the General Manager is encouraged to provide a discussion about the relative merits for creating and filling positions.

E. CIP

Capital spending plans are by their nature multi-year. Each year, prior to budget preparation, the General Manager should evaluate the needs to acquire or replace infrastructure, facilities, equipment and other capital items for a reasonable time period (five years or more). These plans should prioritize the acquisitions and identify funds available to achieve the plans. All plans should include discussion of the impact of acquiring assets and/or failing to acquire them due to resource limitations.

F. Overhead Allocation

Overhead allocation is a tool to match the costs of administrative functions to the operating activities of the CSD. Administrative functions will be charged to a department or departments that are accounted for in the General Fund. Allocation to the Enterprise Funds, (Water, including the SWF, Wastewater) are necessary to assure that rates will be set to properly reimburse the General Fund for expenses necessary to the delivery of services.

Overhead allocation will take into account four criteria:

- Recovery based on equal distribution to all departments.
- Recovery based on relative size of department. The term “relative size” is a subjective determination based on estimates of each department’s use of resources and impact on the District’s overall mission.
- Recovery based on full-time equivalent employees.
- Recovery based on percent of administrative labor applied to departments as determined by interviewing administrative personnel.

Each type of administrative spending will be reviewed to determine the best method, of the four above, to allocate that expense to the operating departments.

As part of the budget process, the charges to each operating department will be the percentage of total overhead budget derived from aggregating the recoveries applied to each spending line-item. The percentage of overhead spending allocated to each operating department will be set at the beginning of the year and will not be changed unless there is a material change in actual or anticipated overhead spending, or a change in the nature of one or more operating departments that would cause a material change in the recovery methodologies.

G. Income Allocation – Property Tax and Other

Property taxes are the primary source of funds for the General Fund departments. Since administrative overhead is fully allocated, no property tax receipts will be allocated to the administrative department(s). Currently, the departments receiving allocations of property tax are the Fire Department, the Facilities and Resources Department and the Parks, Recreation and Open Space department.

Allocation of property taxes is arbitrary. Ultimately, the allocation is the proper responsibility of the CSD Board of Directors. The methodology is iterative. The General Manager should budget expenses for each of the General Fund departments with an understanding of the likely level of property tax receipts. Once expenses are projected, the General Manager will make a recommendation to the Board about the appropriate allocation of property tax receipts. The recommendation should include discussion about the choices made in the spending projections and potential competition between departments for limited funds. The Board will determine the extent to which it agrees with the General Manager’s priorities and allocate anticipated property taxes appropriately. If necessary, the Budget will be revised to take into account the Board's allocation decision.

Minor sources of income, such as fees and grants, are generally specified to certain funds. When the purpose is unspecified, the Board will allocate funds based on recommendations by the General Manager.

H. Structure

Working with the General Manager, the Board should set operating and financial objectives. This process is discussed above. From a structural standpoint, the budget's financial documents must reflect the financial impact of these objectives. More specifically, budget documents must contain at least the following information:

- Beginning Fund Balance
- Receipts of funds
- Loan Proceeds (external and interfund)
- Expenses
- Capital expenditures
- Loan Repayments (external and interfund)
- Allocation to reserves for:
    - Emergency
    - Replacement
    - Unfunded liabilities such as employee benefits
    - Other
- Other receipts or expenses
- Ending Fund Balance

To the extent necessary, the budget will contain appropriate documents with detail supporting the above line-items.

I. Consolidation Entries

The budget will include at least two consolidation levels: General Fund and District. In the process of consolidation, internal transfers will be eliminated to avoid overstating income and expenses. Internal transfers include, but are not limited to, overhead allocation and interfund loans.

CAMBRIA COMMUNITY SERVICES DISTRICT

Budget Policy

Other potential policy titles

- Interfund transfers and loans
- Spending
- Financial Reporting
- Vehicle policy
- CIP/Asset Management

CAMBRIA COMMUNITY SERVICES DISTRICT

INTERFUND LOAN POLICY

PURPOSE

This policy documents requirements and responsibilities to be followed regarding borrowing between funds of the Cambria Community Services District.

The purpose of this policy is to ensure that all interfund loans are appropriate, properly documented, and not established to the detriment of the fund issuing the loan.

POLICY

Interfund loans may not be used to solve ongoing structural budget problems.

Interfund loan recommendations and agreements must include the loan amount, an identified repayment source and the date or timing of repayment. Repayment of all loans will be made within seven years of the loan being made.

The term of the interfund loan may continue over a period of more than one year but must be "temporary" in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. Additionally, interfund loans should not hinder the accomplishment of any function or project for which the lending fund was established.

The agreements may include an interest component that equals the investment earnings the fund would have received had the loan not occurred. Amounts loaned from the Water and Wastewater funds to other District funds must include an interest component. The amount of interest to be charged for these loans will be calculated using the rate investment rate earned by the San Luis Obispo County Treasury. Loans made from the District General Fund to either the Water or the Wastewater Fund may include interest at the discretion of the board and as recommended by the Finance Manager.

The Board of Directors must approve by resolution all interfund loans. The interfund loan agreement will be included as an addendum to the resolution.

Payments made on outstanding loans shall be reflected in the proposed and adopted operating budget and in the annual financial statements. The annual financial statements will also include the loan amount, term, rate of interest, and amount of interest due on the total amount of the loan.

If the borrowing fund continues to maintain negative cash balance for periods beyond the term of the loan, scheduled payments should be postponed until the fund has a positive cash balance. Interest should continue to accrue and be added to the principal of the loan.

Modifications to existing loans may be made only with Board approval.

DEFINITION

Interfund loans are loans from one District fund to another District fund for a designated purpose.

Interfund loans may be made for the following reasons:

- To offset timing differences in cash flow
- To provide financing for interim financing in conjunction with obtaining long-term financing
- For short-term borrowing in place of external financing
- To provide operating capital for utility funds while the customer base increases
- For other needs as deemed appropriate by the Board of Directors

Interfund loan monies may only be used for the purpose identified in the authorizing resolution. Records of interfund loan transactions will be maintained in accordance with generally accepted accounting principles and will reflect the balances of loans in every fund affected by such transactions.

SAMPLE LOAN DOCUMENT

INTER-FUND LOAN AGREEMENT

The Cambria Community Services District ("District") hereby adopts this Inter-Fund Loan Agreement ("Agreement") authorizing the transfer of funds by and between the Cambria Community Services District General Fund ("General Fund") and the Cambria Community Services District Wastewater Fund ("Wastewater Fund").

RECITALS

A. The Wastewater Fund requires an inter-fund loan in order to fund a shortfall from the 2015/16 Fiscal Year of $466,000 that was the result of unanticipated and necessary repairs at the Wastewater Treatment Plant, and to address deficiencies in the District's wastewater infrastructure and system.

B. The District desires and has the resources necessary to facilitate an inter-fund loan from the General Fund to the Wastewater Fund.

C. This Agreement is executed for the purpose of evidencing the obligation of the Wastewater Fund to the General Fund for the repayment of monies loaned to the Wastewater Fund by the General Fund.

AGREEMENT

1. As the District agreed to transfer from the General Fund to the Wastewater Fund the amount of four hundred sixty-six thousand dollars ($466,000) as of June 1, 2016.

2. The term of this inter-fund loan shall be for a ten (10) year period and shall accrue interest at a simple rate of four percent (4%) per annum.

3. The Wastewater Fund shall make annual payments based upon the Repayment Schedule contained in Exhibit "A," attached hereto and incorporated herein by reference. The Wastewater Fund shall repay the General Fund in full by June 30, 2028.

4. District staff is directed to make necessary appropriation adjustments to effectuate this inter-fund loan.

5. District staff is directed to appropriately record this loan in the District's ledger system and subsequent financial reports, as necessary.

In Witness Whereof, this Agreement is executed by duly authorized officers of the Cambria Community Services District this 23rd day of August, 2018.

CAMBRIA COMMUNITY SERVICES DISTRICT

P.O. Box 65 • Cambria, CA 93428 • Telephone: (805) 927-6223 • Fax: (805) 927-5584

DATE: October 31, 2018

TO: Finance Committee

FROM: Bob Gresens, Cambria Community Services District

RE: CIP Sheets Showing Proposed 2nd Half FY 2018/2019 Project Costs

During yesterday's Infrastructure Committee meeting, the maximum potential CIP expenditures for the remainder of the current fiscal year (FY 2018/2019) were reviewed and discussed. The committee then passed a motion to not change the listings described below for the Wastewater Department or SWF. Their recommendation on the list of proposed Water Department projects was to defer replacement of the temporary water line at the pedestrian bridge to next fiscal year, such that $20,000 is spent during this fiscal year in preparing that project for bidding, and subsequently budgeting $100,000 for FY 2019/2020 to allow for its construction completion. Other Water projects to be completed this current fiscal year are described by line items 6, 7, 16, 21, and 25 of the attached CIP summary listing.

Beyond potential CIP projects, the Infrastructure Committee also discussed in concept the need to add two new wastewater operators to operate and maintain the collection system, as well as the potential need for a reserve set aside each year. It should be noted that such costs are not included in the discussion that follows.

The attached Wastewater, Water, and SWF CIP summary sheets were updated based on discussions with each department supervisor on their greatest need, the need to freeze expenditures (per a September 19, 2018 communication to staff), as well as the estimated increase in revenues from November 1, 2018 to June 30, 2019. For increased revenue estimates, we used the attached October 11, 2018 summary from item 3.C of the October11, 2018 Finance Committee meeting. These are summarized in the following table.

Department	8 months of increased revenue	Existing Deficit	Net 8 month increase in revenue
Wastewater	$240,000	($27,722)	$212,278
Water	$320,000		$320,000
SWF	$76,000	($414,751)	($338,751)

The following CIP projects and/or major equipment items were identified as priority needs by Wastewater.

CIP Line #	Project/Equipment Item	2nd Half FY 18/19 Cost
25	Painting of digester hand railings	$15,000
28	Lift Station A1 control panel upgrade	$65,000
33	Lift Station 9 power supply	$5,000
49	Manhole lid replacements	$20,000
50	Sewer Cleaning (aka Vactor, or equal) Truck Replacement	$50,000
53	Replacement ¾ ton pickup with crane	$6,000
54	Sewer Inspection TV camera	$50,000
	Total	**$211,000**

To stay within the $212,278 maximum, loans were assumed for the replacement ¾ ton pickup truck, as well as the sewer cleaning truck. It was also assumed that other wastewater improvements would not be included in the total due to an ongoing PG&E program assessment of the proposed plant improvements. The PG&E turnkey program may offer financing, which is still to be defined.

The following CIP projects and/or major equipment items were identified as priority needs for the SWF.

CIP Line #	Project/Equipment Item	2nd Half FY 18/19 Cost
1	Consulting services to assist on regular CDP	$10,000
5	Miscellaneous instrumentation/monitoring upgrades	$10,000
	Total	**$20,000**

The following CIP projects and/or major equipment items were originally identified as priority needs for Water to the Infrastructure Committee.

CIP Line #	Project/Equipment Item	2nd Half FY 18/19 Cost
1	Pressure Zone 2 to Zone 7 Transmission Main @ SR Creek pedestrian bridge	$120,000
3	Water meter replacements & upgrades	$50,000
13	Replacement of Problematic Leimert Service Lines	$10,000
17	Rodeo Grounds Pump Station replacement	$25,000

	Total	**$205,000**

Per the October 30, 2018 Infrastructure Committee motion, the original Water Department table has been updated to the following:

CIP Line #	Project/Equipment Item	2nd Half FY 18/19 Cost
1	Pressure Zone 2 to Zone 7 Transmission Main @ SR Creek pedestrian bridge	$20,000
3	Water meter replacements & upgrades	$50,000
6	Water pipelines, pumps, and PRV repairs and replacements	$25,000
7	Valve Replacements	$10,000
13	Replacement of Problematic Leimert Service Lines	$10,000
16	Electronic self-monitoring reporting program	$10,000
17	Rodeo Grounds Pump Station replacement (preliminary design)	$25,000
21	Database for water conservation program/tracking	$10,000
25	Vehicle replacement program	$25,000
	Total	**$185,000**

We hope this helps stimulate further discussion and planning.

Attachments:

- Summary page from Item 3.C of the October11, 2018 Finance Committee meeting
- CIP summary lists for Wastewater, Water, and SWF

Wastewater CIP - Capital Improvement Program (Revised 10/25/2018 - For Discussion Only)

#	Project	Expansion [X], Replacement [R] Operations [O]	% X	% R	% O	Priority Ranking	Budget Year 1st Half FY18/19	2nd Half FY18/19	Projected FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	Total
	Wastewater Projects																
	Wastewater Treatment Plant Projects																
1	Influent screen, support platform design, & installation	R/O	20	80		1	$164,509										$164,509
2	Design & install switch between WWTP's main incoming power transformer supply & existing MCC		20	80		1		$75,000									$75,000
3	Neutral wire installation from PG&E-provided delta to wye main replacement transformer to main MCC	R	20	80		1		$20,000									$20,000
4	Replace WWTP main power supply breaker and auto-transfer switch; (or, do project 5B.)	R	20	80		1			$30,000								$30,000
5	Replace main incoming power Motor Control Center with Y-configuration supply; (or, do project 5A)	R	20	80		1			$300,000								$300,000
6	WWTP Update BNR Modeling Update & Value Engineering (early half of FY)	X/R/O	20	20	80	1		$40,000									$40,000
7	Aeration tank baffles, anoxic mixers, & ML recirc system (later half of FY)	R/O	20	80		1		$40,000	$80,000								$120,000
8	Replace digester catwalk handrailings (painting is not included, & is to be funded from 6032T, WWTP maintenance & repair)	R	20	80		1	$45,000										$45,000
9	Plant non-potable 3W improvements & non-potable sprays for screw press		20	80		1			$15,000								$15,000
10	Improve grit tank hydraulic capacity (placeholder, insert approx $10K cost if needed)	X/R/O	20	20	80	1											$ -
11	Replace effluent punp (southern pump)		20	80		1		$25,000									$25,000
12	Effluent P.S. bypass piping		20	80		1			$20,000								$20,000
13	Miscl WWTP lab upgrades & investment in electronic self-monitoring reporting			20	80	1		$10,000	$10,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$41,000
14	Incoming power supply monitoring & conditioning system (8/24/2018 ElSpec Quote + 25K estimate to install)	R	20	80		2		$61,105									$61,105
15	Automate aeration D.O. control system (CVs at air headers, press control @ main air header, new DO probes)	X/R/O	20	20	80	2		$50,000	$100,000								$150,000
16	Upgrade/replace aeration blowers	X/R/O	20	20	80	2		$30,000	$150,000								$180,000
17	Blower electrical room air filtration/conditioning for moisture & corrosion control		20	80		2			$10,000								$10,000
18	Replace main WWTP backup power generator		20	80		2				$200,000							$200,000
19	Repair or replace protective surge tank for plant effluent pipeline		20	80		2			$25,000								$25,000
20	Annual electrical & instrumentation improvements	X/R/O	20	20	80	2		$60,000	$60,000	$60,000	$60,000	$60,000	$60,000				$360,000
21	SCADA System - WWTP - long-term improvements	X/R/O	20	20	80	2		$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$225,000
22	Cathodic protection replacements at digesters	R	20	80		3				$10,000							$10,000
23	Long-term plant upgrades - new sludge digester, flow equalization improvements, denite/phosphorous removal		20	80		3				$250,000	$250,000	$250,000	$250,000	$250,000	$250,000		$1,500,000
24	Demo and remove old flow equalization tanks in SW corner of plant				100	3			$40,000								$40,000
25	Paint Handrails							$15,000									
	Collection System Projects																
26	Manhole raising due to street overlays & roadway work		20	80		1		$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$90,000
27	Lift Station A (Nottingham & Leighton/Park Hill) new control panel at grade el.	X/R/O	20	20	80	1		$10,000	$80,000								$90,000
28	Lift Station A-1 (Sherwood & Harvey/Marine Terrace) new control panel at grade el.	X/R/O	20	20	80	1		$65,000									$65,000
29	Lift Sation B improvements (SR Creek/behind Park Hill) new control panel	X/R/O	20	20	80	1											$ -
30	Lift Station B - new wet well, submersible pumps, and valve vault (placeholder)	X/R/O	20	20	80	1						$300,000					$300,000
31	Lift Station B-1 (Village Ln/Tin City) relocate away from Feb 2017 landslide area (potential 50% FEMA 406 funding)	X/R/O	20	20	80	1			$300,000								$300,000
32	Lift Station B-2 (Wood Dr./E. Lodge Hill) new control panel at grade el.	X/R/O	20	20	80	1			$75,000				$35,000	$315,000			$425,000
33	Lift station 9 - replace corroded main incoming power breaker			100		1		$5,000									$5,000
34	SCADA System - Collections System - long-term improvements	X/R/O	20	20	80	2		$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$225,000
35	Collection System smoke testing				100	2		$50,000									$50,000
36	Annual manhole inspections and report on needed corrections (approx. 20% of system/yr)				100	2		$40,000	$40,000	$40,000	$40,000	$40,000					$200,000
37	Collection System Phased televising & cleaning	R/O			100	2		$100,000	$100,000	$100,000	$100,000	$100,000					$500,000
38	Collection System Assessment software (E.g, t4 Spatial or other)				100	2		$10,000									$10,000
39	Collection System Assessment/engineering for repairs				100	2		$30,000	$30,000	$30,000	$30,000	$30,000					$150,000
40	Collection System Repairs to reduce I/I & damaged pipe sections				100	2		$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$50,000	$450,000
41	Lift Station A (Nottingham & Leighton/Park Hill) new submsersible pumps, MCC, bypass piping	X/R/O	20	20	80	2					$50,000	$350,000					$400,000
42	Lift Station A-1 (Sherwood & Harvey/Marine Terrace) submersible pumps, MCC, bypass piping	X/R/O	20	20	80	2					$40,000	$225,000					$265,000
43	Lift Station B - replace existing generator	X/R/O	20	20	80	2			$60,000								$60,000
44	Lift Station B-3 (Green St./W. Lodge Hill) new control panel followed by future submserible pumps, MCC, bypass piping	X/R/O	20	20	80	2			$90,000			$160,000					$250,000
45	Lift Station B-4 (Green & Gleason/W. Lodge Hill) new submsersible pumps, bypass piping	X/R/O	20	20	80	2					$20,000	$240,000					$260,000
46	Replacement and New PCs for operators			20	80	2		$10,000					$10,000				$20,000
47	Lift Sation 4 (DeVault Pl/Seaclift Estates) VFDs /new elect panel & 3 phase pump motors	R/O		20	80	3			$25,000	$60,000							$85,000
48	Annual maintenance and upgrading to GIS (moved $5K from capital program to WW acct 6080M)	R/O		20	80	3			$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$80,000
49	Manhole cover replacements							$20,000									
	Vehicles and Trailer- Mounted Equipment																
50	Vactor truck - replace with new $430K truck that meets emssion requirements (7 yr loan @ 4.5%)		20	80		2		$50,000	$74,000	$74,000	$74,000	$74,000	$74,000	$74,000	$24,000		$518,000
51	Vehicle Replacement Program			100		3		$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$225,000
52	Portable equipment replacement program (backhoes, generators and pumps)					4		$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$135,000
53	F350 or equal service truck with crane & mechanics body ($56K initial cost; 5 yr loan @ 4.25%)							$6,000	$13,400	$13,400	$13,400	$13,400	$6,800				
54	Pearpoint or equal TV inspection camera							$50,000									
	Overhead CIP Projects																
55	Finance/billing software upgrade (wastewater est'd @ 50%)	R/O		20	80	3		$25,000	$50,000								$75,000
56	Contingency/reserves (amount remains TBD)	X/R/O	20	20	80	4											$ -

Notes:
- (yellow) Department priority projects/ependitures for remaining of FY
- (grey) Shaded to show costs that would be deferred in order to balance remaining FY expenditures with revenue increase
- (green) Revised timing of project expense

	1st Half FY18/19	2nd Half FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	Total
Total Per Year (all priorities)	$209,509	$1,047,105	$1,937,400	$1,000,400	$840,400	$2,005,400	$598,800	$802,000	$437,000	$163,000	$8,889,614
Revised to meet projected increase		$211,000									$211,000
Priority Level 1 projects:	$209,509	$300,000	$920,000	$13,000	$13,000	$313,000	$48,000	$328,000	$13,000	$13,000	$2,170,509
Priority Level 2 projects:	$ -	$591,105	$839,000	$604,000	$514,000	$1,379,000	$244,000	$174,000	$124,000	$100,000	$4,569,105
Priority Level 3 projects:	$ -	$50,000	$150,000	$355,000	$285,000	$285,000	$285,000	$285,000	$285,000	$35,000	$2,015,000
Priority Level 4 projects:	$ -	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$15,000	$135,000
Cummulative Total	$209,509	$1,256,614	$2,146,909	$3,147,309	$3,987,709	$5,993,109	$6,591,909	$7,393,909	$7,830,909	$7,993,909	$8,889,614

Water Projects (Revised 10/25/2018 - For Discussion Only)

Preliminary costs need to be updated & tied to a an ENR/year basis.

Line/Project No.	Description	Expansion [X], Replacement [R] Operations [O]	% X	% R	% O	Priority Ranking	Mid Year FY16/17	Budget Year Projected FY 18/19 - 1st half	FY18/19 - 2nd half	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25	FY25/26	FY26/27	FY27/28	
	Water Distribution System Projects																		
1	Pressure zone 2 to zone 7 transmission main @ SR Creek pedestrian bridge		20	80		1			$ 20,000	$ 100,000									$ 120,000
2	Subzone metering of distribution system				100	1				$ 50,000	$ 50,000	$ 50,000							$ 150,000
3	Water Meter Replacements & Upgrades	R/O		75	25	1			$ 50,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000	$ 200,000					$ 1,050,000
4	Water Master Plan Amendment (revised fire flow modeling/tank sizing check	R/O/X	20	80		2				$ 35,000									$ 35,000
5	Stuart Street Tank Replacement (125K gallon welded steel tank with new foundation					2							$ 458,000						$ 458,000
6	Water pipelines, pumps, and PRV repairs and replacements	R/O		100		2			$ 25,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000	$ 475,000
7	Valve Replacements					2		$ 10,000	$ 10,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 200,000
8	Inspection & spot repair to water transmission main under S. Parks wetlands area; or do 7E		20	80		3					$ 80,000								$ 80,000
9	Lining of transmission main under S. Parks wetlands area (alt to relocate ~ $612K to $1.16 million), or do 7A		20	80		3					$ 50,000	$ 150,000	$ 816,000						$ 1,016,000
10	Pine Knolls - Iva Court zone 1 pipeline expansion	R/O	20	80		3					$ 40,000	$ 125,000							$ 165,000
11	Piney Way erosion control protection for existing pipeline	O			100	3				$ 10,000									$ 10,000
12	Study & predesign for pipeline in State Parks wetlands					3				$ 30,000									$ 30,000
13	Replacement of problematic service lines within Leimert					3			$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 100,000
14	Annual GIS updating & upgrades	R/O			100	3		$ 10,000		$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 100,000
15	Replacement of problematic service lines within Leimert					3		$ 40,000					$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 100,000
	Water Treatment																		
16	Electonic self monitoring reporting program (yr 1 is software + consulting, yrs 2 + are annual tech support				100	2			$ 10,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 19,000
	Tank & Booster Pump Station Projects																		
17	Rodeo Grounds Pump Station Replacement (aka Zone 2 Booster pump station	R/X	20	80		2			$ 25,000	$ 101,000	$ 500,000	$ 400,000							$ 1,026,000
18	Electrical transfer switch and conduit to well SS-3	O			100	2				$ 25,000									$ 25,000
19	San Simeon well field generator replacement	R/O	20	80		2					$ 100,000								$ 100,000
20	SCADA System - Long-term Water Portion	R/O		50	50	3			$ 10,000	$ 50,000	$ 50,000	$ 50,000	$ 50,000						$ 210,000
	Water conservation																		
21	Database for water conservation program/tracking with parcel links & APN file conversion	X/R/O	80		20	3			$ 10,000	$ 10,000									$ 20,000
	Vehicles & Trailer Mounted-Equipment																		
22	Replacement Dump Truck (alternativey, a 76 K purchase with 6 yr loan @ 5% would be 13,000 per yr.					1		$ 76,000											$ 76,000
23	Trailer Mounted Air Compressor	O		100		2		$ 22,700											$ 22,700
24	Trailer mounted, Vacuum Excavator	O		100		2		$ 48,000											$ 48,000
25	Vehicle Replacement Program					2			$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 250,000
	Overhead Projects																		$ -
26	Finance/billing software upgrade (water est'd @ 50%)	R/O		100		1			$ 50,000	$ 25,000									$ 75,000
27	User Fee study (water rates portion)	O		100		1													$ -
28	Contingency/reserves (amount remains TBD)	R/O		100		4													$ -
	Notes:						$ -	$ 206,700	$ 245,000	$ 752,000	$ 1,186,000	$ 1,091,000	$ 1,650,000	$ 326,000	$ 126,000	$ 126,000	$ 126,000	$ 126,000	$ 5,960,700
		Revised to meet projected increase							$ 185,000										$ 185,000
		Priority Level 1 projects:					$ -	$ 76,000	$ 120,000	$ 375,000	$ 250,000	$ 250,000	$ 200,000	$ 200,000	$ -	$ -	$ -	$ -	$ 1,471,000
		Priority Level 2 projects:					$ -	$ 80,700	$ 95,000	$ 257,000	$ 696,000	$ 496,000	$ 554,000	$ 96,000	$ 96,000	$ 96,000	$ 96,000	$ 96,000	$ 2,658,700
		Priority Level 3 projects:					$ -	$ 50,000	$ 30,000	$ 120,000	$ 240,000	$ 345,000	$ 896,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 30,000	$ 1,831,000
		Priority Level 4 projects:					$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
							$ -	$ 206,700	$ 451,700	$ 1,203,700	$ 2,389,700	$ 3,480,700	$ 5,130,700	$ 5,456,700	$ 5,582,700	$ 5,708,700	$ 5,834,700	$ 5,960,700	$ 5,960,700

Notes:
- (yellow) Department priority projects/ependitures for remaining of FY
- (grey) Shaded to show costs that would be deferred to subsequent year.
- (purple) Shows projects that were unshaded and recommended during 10/30/2018 Infrastructure Committee meeting

SWF Projects (Revised 10/25/2018 - For Discussion Only)

Preliminary costs need to be updated & tied to a an ENR/year basis.

Line/ Project No.	Description	Expansion [X], Replacement [R] Operations [O]	% X	% R	% O	Priority Ranking	First Half FY18/19	2nd Half FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25	FY26/27	FY27/28	Check of total
	SWF Projects																
	Regular Coastal Development Permitting Support																
1	EIR consulting (follow up agency discussions to support the SWF's Regular CDP)		20	80		1		$ 10,000									$ 10,000
2	Section 7 ESA consulting, annual AMP report, & AMP update		20	80		1	$ 125,000										$ 125,000
3	Legal assistance for CEQA support and any subsequent appeals (amounts each year remain to be determined and are not shown)																
	Interim, short-term SWF Modifications																
4	Modifications to facilitate off-hauling RO concentrate, & addition of a flow meter at the AWTP.					1	$ 50,000										$ 50,000
	Advanced Water Treatment Plant Improvements																
5	Miscelaneous instrumentation / monitoring upgrades		20	80		1		$ 10,000									$ 10,000
	Long-Term Improvement Modifications																
6	Consutling assistance for coordination with Army Corps on WRDA grant (meetings, redefine work plan, & update scope of work)					2		$ 20,000	$ 20,000								$ 40,000
7	Sems, Hach WIMS, or custom programmer for logging/reporting software and tablets (yr 1 is software/programming assistance)		20	80		2		$ 6,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 22,000
8	Future permanent mods at SWF for trailer fill station [transfer tanks, piping, & spill contrainment/loading pad] (1,2)		20	80		2			$ 200,000								$ 200,000
9	AWTP pull-barn style covers for outdoor equipment & control panels (1,2)		20	80		2			$ 50,000								$ 50,000
10	Installation of remote sensing instrumentation at SS creek (needs access agreement with State Parks)		20	80		3			$ 10,000								$ 10,000
11	Surface Water Treatment Plant (SWTP) for Holding Basin and Well SS-1 treatment		20		80	3						$ 150,000	$ 600,000	$ 600,000			$ 1,350,000
12	Pipeline from Well SS-1 to surface water treatment plant (SWTP)		20		80	3							$ 75,000	$ 350,000			$ 425,000
13	Impoundment basin conversion to groundwater storage, pump station at storage basin , and connecting pipelines		20		80	3							$ 75,000	$ 350,000			$ 425,000
14	Solar Array System (1,2)					3			$ 375,000								$ 375,000
	2017 Cease & Desist Order Compliance - Non-capitalized Expenses																
15	Short term flood damage/CDO response - consultants for surveying , project mngt assistance& inspection, surface water hydrology & geohydrological		20	80		1											$ -
16	Short term flood damage mitigation - drainage swale construction		20	80		1											$ -
17	Short term flood damage mitigation - temporary closure plan equipment, installation, rentals, and temp power & controls				100	1	$ 10,000										$ 10,000
18	Hauling off the last 18-inches of impoundment water & emptied impoundment cleaning				100	1	$ 35,000										$ 35,000
		Subtotal:					$ 175,000	$ 46,000	$ 222,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 457,000
	Notes:	Revised to meet projected increase						$ 20,000									$ 20,000
	Department priority projects/ependitures for remaining of FY	Priority Level 1 projects:					$ 175,000	$ 20,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 195,000
	Shaded to show costs that would be deferred	Priority Level 2 projects:					$ -	$ 26,000	$ 222,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 2,000	$ 262,000
	Estimated operational cost (not includded in total for capital cost)	Priority Level 3 projects:					$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Priority Level 4 projects:					$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Cumulative:					$ 175,000	$ 221,000	$ 397,000	$ 399,000	$ 401,000	$ 403,000	$ 405,000	$ 407,000	$ 409,000	$ 411,000	$ 457,000

Notes: Red font indicates future projects that may qualify for Army Corps project funding via the existing federal Water Resource Development Act (WRDA) grant. If appoved by Army Corps, costs could become zero due to past local share cost credit (see note 2 below).

1 Solar array estimated at 250 KW, & approximately $1.50 per KW installed. Future candidate for Renewable Energy System Credit Transfer (RESCT), which could conceivably allow applying production towards remote CCSD electrical loads, such as WWTP.

2 Cost shown do not include any reduction from a 75% federally-funded existing WRDA grant with the Army Corps and are subject to the terms of a project cooperative agreement. Costs shown do not include any local share credit of approximately $3 million, which as previously approved by the Army Corps. The grant, as well as proposed cost components, need to be revisited with the Army Corps and incorporated into the Corps project management plan updating process.

MOULTON NIGUEL WATER DISTRICT
DEBT MANAGEMENT POLICY
Effective: July 1, 2017

Policy Statement

This policy documents Moulton Niguel Water District's (the "District" or "MNWD") goals and guidelines for the use of debt instruments for financing District water, recycled water, and wastewater infrastructure, projects, and other financing needs. The District recognizes the need to invest in ongoing capital replacement and rehabilitation of its facilities as well as new infrastructure to ensure future viability of services, and that the appropriate use of debt can facilitate the timely construction of such facilities.

The District expects to pay for infrastructure and other projects (e.g., water supply) from a combination of current revenues, available reserves, and prudently issued debt. MNWD recognizes 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 cost-effective and fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (iii) if there are other important policy reasons therefor. All District debt must be approved by the Board of Directors ("Board").

To endorse prudent financial management and achieve the highest practical credit ratings, the District is committed to systematic capital planning, and long-term financial planning. Evidence of this commitment to long term capital planning is demonstrated through adoption and periodic adjustment of the District's Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding capital improvement projects over the planning horizon.

Purpose of Policy

The purpose of this debt management policy is to:

- To establish parameters for issuing debt, including the purposes for which debt can be issued
- Describe how debt and debt proceeds will be managed
- Provide guidance as to the type of debt to be issued
- Provide guidance as to the relationship between the capital improvement plan and debt issuance

Purpose and Use of Debt

The District will utilize reasonable debt financing to fund long-term improvements and thus ensure equitable allocation of costs. Long-term improvements may include the acquisition of land, facilities, infrastructure, and supplies of water; and enhancements or expansions to existing water, recycled water, and wastewater capacity and facilities. Debt can be issued to fund the planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment and other costs as permitted by law. The District will not issue debt to cover operating needs.

The District may utilize short term financing (including leases) to finance certain essential equipment and vehicles. These assets can range from service vehicles to equipment. The underlying asset must have a minimum useful life of one year or more. Short-term financings, including loans, on bill financing and capital lease purchase agreements, are executed to meet such needs.

The Treasurer, Director of Planning and Financial Planning Manager will periodically evaluate the District's existing debt and recommend re-financings or prepayment (refunding) when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations, such as commercial paper or loans.

The General Manager, Treasurer, Director of Planning and Financial Planning Manager and District Financial Advisor as appropriate shall be responsible for analyzing any debt financing proposal to determine if it is beneficial to the District and if it complies with the District's long-term financial planning objectives, including maintaining or improving the current credit ratings assigned to outstanding debt by the major credit rating agencies.

The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized. Debt may only be issued upon Board authorization. No debt shall be issued with a maturity date greater than the expected weighted average useful life of the facilities or improvements being financed. The final maturity of bonds or state or federal loan debt shall be limited to 30 years after the date of issuance.

Debt Management

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 process. 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, Reserve Policy and 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 existing debt service covered by such existing revenues, (ii) additional revenues, as necessary, have been identified as a source of repayment in an amount sufficient to pay for the proposed debt, and (iii) bond covenants will be maintained.

- Debt will be structured for the shortest period possible, consistent with an equitable allocation of costs to current and future users. Borrowings by the District should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 20-30 years.

- The District may issue bonds on a fixed or variable interest rate basis. Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment. When appropriate, the District may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such variable rate bonds will be limited to no more than 20% of outstanding debt.

The proceeds of the bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The District's Investment Policy and the specific bond indentures govern objectives and criteria for investment of bond proceeds. The Treasurer, Director of Planning and Financial Planning Manager will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not comingled with other forms of District cash and investments. The District's trustee will administer the disbursement of bond proceeds pursuant to an Indenture of Trust. Requisition for the disbursement of bonds funds must be approved by the District's General Manager or Treasurer.

The Financial Planning Manager and Controller will monitor dedicated debt reserve fund balances and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a current refunding must outweigh the cost of reissuing new debt. A potential refunding will be assessed in combination with any new capital projects requiring financing, and the benefits of the refunding will be evaluated in relation to its costs and risks.

Debt can be refunded to achieve one or more of the following objectives:

- Reduce future interest costs;
- Restructure future debt service in response to evolving conditions regarding anticipated revenue sources;
    - Current refundings (that is, refinancings within 90 days of the call date) must meet a minimum net present value savings target of 3% of refunded bonds, while advance refundings (those refinancings executed more than 90 days prior to the call

date) must meet a net present value savings target of at least 5% of refunded bonds and an escrow efficiency of 70%:

- Restructure the legal requirements, termed covenants of the original issue to reflect more closely the changing conditions of the District or the type of debt.

Debt Service Coverage Target

The District will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in acceptable debt service coverage ratios. In determining the affordability of proposed revenue bonds, the District will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance (O&M expense) to estimated annual debt service and estimated debt service coverage ratio (DCR). DCR is the amount of cash flow available to meet annual interest and principal payment on debt.

The District's objective is to maintain a DCR at or above 1.75 times to maintain its high quality credit rating.

Debt Instrument Rating

The General Manager, Director of Planning and Financial Planning Manager, with the District's Financial Advisor if appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the Board. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

Debt Structuring

In structuring a debt issuance, the district will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments. The District will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. "Backloading" of debt service will be considered only when such structuring is beneficial to the District's aggregate overall debt payment schedule.

The Financial Planning Manager, Director of Planning and General Manager, with the advice of the District's Financial Advisor, will evaluate and recommend to the Board the use of a call option, if any, and call protection period for each issuance. A call option, or optional redemption provision, gives the District the right to prepay or retire debt prior to its stated maturity. This option may permit the District to achieve interest savings in the future through refunding of the bonds. Because the cost of call options can vary widely, depending on market conditions, an evaluation of factors, such as the call premium, time until the bonds may be called at a premium or at par, and interest rate volatility will guide the decision to issue bonds with a call option. Generally, 30-year tax exempt municipal borrowings are structured with a 10-year call. From time to time, shorter call options (5-9 years) may also be used.

Types of Debt

Revenue bonds, Certificates of Participation (COPs), variable rate bonds, state revolving fund (SRF) loans, federal loans, bank loans, notes, commercial paper, direct placements, capital leases, lease-purchase financing, and on bill financing. The weighted average useful life of the asset(s) or project shall exceed the payout schedule of any debt the District assumes. A definition on each type of debt is provided in Appendix A.

In addition to the aforementioned long and short term financing instruments, the District may also consider joint arrangements with other governmental agencies. Communication and coordination will be made with local governments regarding cost sharing in potential joint projects, including leveraging grants and funding sources.

The District is authorized to join with other special districts and/or municipal agencies to create a separate entity, a Joint Powers Authority (JPA), to issue debt on behalf of the District, the special district or municipality. The District will only be liable for its share of debt service, as specified in a contract executed in connection with the joint venture debt.

Credit Enhancement

Credit enhancement may be used to improve or establish a credit rating on District debt obligation. Types of credit enhancement include Letters of Credit, bond insurance or surety policies. The Treasurer and General Manager will recommend to the Board the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the General Manager and/or Treasurer (with the advice of counsel and the District’s Financial Advisor), the use of such credit enhancement furthers the District’s overall financial objectives.

Debt Service Reserve Fund/Surety Policy

Unless there are market requirements or it is important to increase credit ratings, the District will not fund a debt service reserve fund as part of its debt issuance. To the extent the Treasurer, and/or Financial Planning Manager determine that a debt service reserve fund is advantageous, the debt reserves will be maintained in accordance with the District’s Reserve Policy.

Capitalized Interest

Generally, interest shall be capitalized for the construction period of a revenue-producing project, that debt service expense does not begin until the project is expected to be operational and producing revenues. In addition, for lease back arrangements, such as those used for lease revenue bond transactions interest may be capitalized for the construction period, until the asset is operational. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period.

Credit Ratings

The District will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the District's policy objectives. Ratings are a reflection of the general fiscal health of the District. By maintaining the highest possible credit ratings, the District can issue its debt at a lower interest cost. To enhance creditworthiness, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning.

The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the District's debt rating on outstanding debt.

Rating Agency Relationships

The District may seek credit ratings from any or all of the major credit rating agencies - Standard & Poor's, Moody's Investors Service, and Fitch Investors Service, as appropriate. In addition, the District will evaluate the value of additional ratings on a case by case basis (e.g., Kroll Rating Services). District staff will provide periodic updates to the rating agencies, both formal and informal, on the District's general financial condition and coordinate meetings and presentations in conjunction with a new debt issuance when determined necessary.

The retention of a rating agency relationship will be based on a determination of the potential for more favorable interest costs as compared to the direct and indirect cost of maintaining that relationship.

Bond Ratings

The General Manager, Director of Planning, and Financial Planning Manager, working with the District's Financial Advisor, shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

Method of Sale

The District will select the method of sale, which best fits the type of bonds being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

I. Competitive sale. Bonds will be marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on its best bid for its securities. The District will award the sale of the competitively sold bonds on a true interest cost (TIC) basis. Pursuant to this policy, the General Manager is hereby authorized to sign the bid form on behalf of the District fixing the interest rates on bonds sold on a competitive basis.

II. Negotiated sale. The General Manager, Director of Planning and Financial Planning Manager select the underwriter, or team of underwriters, of its securities in advance of the bond sale, subject to Board approval. The District works with the underwriter to bring the issue to market and negotiates all rates and terms of the sale. In advance of the sale, the General Manager after approval from the Board of Directors, with advice from the District's Financial Advisor, will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale itself will be conducted. Pursuant to this policy, the General Manager is hereby authorized to sign the bond purchase agreement on behalf of the District fixing the interest rates on bonds sold on a negotiated basis.

III. Private placement. The District may elect to issue debt on a private placement bases. 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 of it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

Roles and Responsibility

The primary responsibility for developing debt financing recommendations rests with the Financial Planning Manager. In developing such recommendations, the Financial Planning Manager shall consider the need for debt financing and assess progress on the current capital improvement program or plan (CIP) and any other program/improvement deemed necessary by the District. The Board authorizes and approves debt financing and/or debt service related recommendations and proposals.

All proposed debt financings shall be approved by the Board.

Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State of California Government Code (CGC) §54300 et seq.

Bond Counsel

The District will retain external bond counsel for all debt issues. As part of its responsibility to oversee and coordinate the marketing of all District indebtedness, the General Manager, Director of Planning, and Financial Planning Manager shall make recommendations for approval by the Board on the retention of bond counsel.

Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the District will include a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

District Financial Advisors

The District will select independent registered municipal advisors (District Financial Advisor) who may assist in planning and executing all bond and debt transactions. To avoid any appearance of conflict of interest, a District Financial Advisor may not also engage in the underwriting of the District’s bonds. District Financial Advisors shall be selected through a competitive process after a review of proposals by the staff and approved by the Board.

The District Financial Advisor will advise the District on refunding opportunities for current outstanding debt, as well as assist in evaluating the merits of competitive, negotiated or private placement of new debt, and determining the most appropriate structure to ensure effective pricing that meets the District’s near-term and long term cash flow needs. The District Financial Advisor will work with all parties involved in the financing transaction, including the District’s bond counsel, trustee, underwriters, credit liquidity providers, to develop and monitor the financing schedule and preparation of the Official Statement. The District Financial Advisor will assist the District in developing and distributing bid specifications for desired services as, trustee and paying agents, printing, remarketing and credit liquidity service providers, and assist the District in its review process. The District also expects that its District Financial Advisor will provide objective advice and analysis, maintain confidentiality of the District’s financial plans, and be free from any conflict of interest.

Underwriters

For negotiated sales, the District will generally select or pre-qualify underwriters through a competitive process. This process may include a request for proposal or qualifications to all firms considered appropriate for the underwriting of a particular issue or type of bonds. The Financial Planning Manager, in consultation with the District’s Financial Advisor, will determine the appropriate method to evaluate the underwriter submittals and then recommend or qualify firms on that basis. The District will not be bound by the terms and conditions of any underwriting agreement; oral or written, to which it was not a party.

Federal Arbitrage and Rebate Compliance

The District will fully comply with federal arbitrage and rebate regulations. Concurrent with this policy, the Financial Planning Manager and Controller will take all permitted steps to minimize any rebate liability through proactive management in the structuring and oversight of its individual debt issues. All of the District's tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations.

The Controller and Financial Planning Manager shall be responsible for the following:

I. Monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the District shall meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be reasonably expected that 85% of the proceeds will be expended within the three-year temporary period.

II. Monitoring the investment of bond proceeds with awareness of rules pertaining to yield restrictions. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.

III. Contracting the services of outside arbitrage consultants to establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.

To the extent any arbitrage rebate liability exists, the District will report such liability in its annual Comprehensive Annual Financial Report CAFR).

Continuing Disclosure

The District will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the Securities Exchange Commission (SEC) Rule 15c2-12 and consistent with the District's Disclosure Procedures Policy. The Financial Planning Manager shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The District will provide financial information and operating data no later than 270 days following the end of the District's fiscal year each year, and will provide notice of certain enumerated events with respect to the bonds, if material, as defined in the District's bond covenants and as required by the SEC.

The District will keep current with any changes in both the administrative aspects of its filing requirements and the national repositories responsible for ensuring issuer compliance with the continuing disclosure regulations. In the event a 'material event' occurs requiring immediate disclosure, the Financial Planning Manager and Controller will ensure information flows to the appropriate disclosure notification parties.

Compliance with Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the District is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments
- Timely transfer of debt service payments to the trustee or paying agent
- Compliance with insurance requirements
- Compliance with rate covenants where applicable
- Compliance with all other bond covenants

On an annual basis, the Controller will prepare all required debt related schedules and footnotes for inclusion in the District's CAFR. The CAFR shall describe in detail all funds and fund balances established as part of any direct debt financing of the District.

The CAFR may also contain a report detailing any material or rate covenants contained in any direct offering of the District and whether or not such covenants have been satisfied.

Policy Review

On an as needed based, the General Manager will be responsible for updating and revising this Policy which shall be reviewed at the Board meeting and adopted by the Board of Directors.

APPENDIX “A”

Definitions of Types of Debt

Bank Loans and Notes

Use of short-term borrowing, such as bank loans and notes, will be undertaken only if available cash or reserves are insufficient to meet both project needs and current obligations.

Capital Lease

Capital lease debt may be considered to finance capital improvements, including vehicles and equipment with an expected useful life of less than ten years. A capital lease is a lease in which the lessor finances the lease and all other rights of ownership transfer to the District.

Derivatives

The District may choose to enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The District will only consider the use of derivative products on a case-by-case basis and consistent with state statute and financial prudence. Before entering into such contracts or agreements, the District will review the risks and benefits of such financing techniques and expected impacts on the District’s long-term financial operations and credit ratings. The District shall not execute derivative contracts with terms exceeding 10 years.

Lease-Purchase Financing

The use of lease-purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option. The lifetime cost of a lease may be higher than other financing options or pay-go purchases. Nevertheless, lease-purchase agreements may be used by the District as funding options for capital acquisitions if circumstances warrant.

On Bill Financing

The District may choose to enter into low or zero interest financing agreements with utility providers who offer On Bill Financing. This type of financing offers financing of business improvements at little to no interest and no fees or costs to the District. Repayment amounts will be based on projected savings associated with the project and will be part of the monthly bill received from the issuer. Financing terms can range from three to ten years depending on the project to be financed.

Revenue Bonds

Revenue bonds issued by the District are long term obligations issued to fund a specific project or purpose. The District will generally issue revenue bonds on a fixed interest rate basis, wherein at the time of the bond sale all interest rates are known and do not change while those bonds are outstanding. Particular conditions may arise where the District would consider the use of variable interest rate bonds. Variable interest rate bonds have interest rates that reset on a periodic basis (e.g. daily, weekly, monthly, etc.). Revenue bonds are payable solely from District revenues in accordance with the agreed upon bond covenants.

Variable Rate Debt

Variable rate debt is an alternative to fixed rate debt. It may be appropriate to issue short-term or long-term variable rate debt to diversify the District's debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. Variable rate debt typically has a lower cost of borrowing than fixed rate financing and shorter maturities in the range of 7 to 35 days. The District may consider variable rate debt in certain instances. The District will maintain a conservative level of outstanding variable debt not exceeding 20% of outstanding debt. Under no circumstances will the District issue variable rate debt solely for the purpose of earning arbitrage.

Short Term Debt

Pending the issuance of bonds the Board may authorize the issuance of short term debt. The Financial Planning Manager will determine and utilize the least costly method for short-term borrowing. Such debt shall be authorized by resolution of the Board.

These short term notes may be structured as:

- Bond Anticipation Notes (BANs) - BANs are short term obligations that will be repaid by proceeds of a subsequent long-term bond issue. The District may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, financing for such notes must be planned for and determined to be feasible by the General Manager and Financial Planning Manager, in consultation with the District's Financial Advisor.

- Commercial Paper (CP) - CP is a form of debt that has maturities up to 270 days although it may be rolled to a subsequent maturity date. Tax Exempt Commercial Paper shall not be issued for District for capital programs unless it is of sufficient economic size, as determined by the General Manager and Financial Planning Manager, in consultation with the District's Financial Advisor.

- Tax and Revenue Anticipation Notes (TRANs) - TRANs are short term notes secured by a pledge of taxes and other revenues in the current fiscal year. TRANs, if issued, will constitute direct obligations of the District. All TRANs will be redeemed in the same fiscal year in which they are issued.

State Revolving Funds

A State Revolving Fund (SRF) loan is a low or zero interest loan program for the construction of wastewater treatment and sewage collection systems, water recycling facilities, storm water projects, implementation of nonpoint source and storm drainage pollution control management programs, and for the development and implementation of estuary conservation and management programs. SRF debt service payments are factored into debt service coverage ratios as defined by applicable water and wastewater indentures.

SRF loans are generally structured such that the District is required to contribute a percentage of the total project cost and receives loan proceeds from the State for the balance. The SRF loan interest rate is calculated by taking half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds sale. The term of the loans can be 20 to 30 years. When compared to traditional bond financing, the District may realize substantial savings through the use of SRF loans.

SRF Loans may provide additional assistance in the form of principal forgiveness. Principal forgiveness must be specified at the execution of the loan agreement for the amount forgiven to be counted against the total loan required to be provided by the SRF.

Letters of Credit

The District shall have the ability to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous. Only those financial institutions with short-term credit ratings of VMIG 1/A-1, F1 by Moody’s Investor Services, Standard & Poor’s and Fitch IBCA, may participate in the District’s letter of credit agreements.

SOQUEL CREEK WATER DISTRICT
DEBT MANAGEMENT POLICY

Purpose

The purpose of this Debt Management Policy (the "Policy") is to establish debt management objectives for the effective governance, management, and administration of debt. This Policy is intended to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. It also provides guidance in regards to the type of debt that may be issued, types and amounts of permissible debt, and the method of sale that may be used.

Background / General Statement

The Soquel Creek Water District (the "District") is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent financial management practices. Debt levels and their related annual costs are important long-term obligations that must be managed with available resources. Adherence to a debt management policy communicates to rating agencies and the capital markets that an organization is well managed and should meet its obligations in a timely manner.

This Policy has been developed based on the Government Finance Officers Association Best Practices – Debt Management Policy; and in accordance with California Government Code Section 8855(i), effective January 1, 2017.

Authority and Responsibility

A. Board of Directors

   The Board of Directors approves the Policy and any revisions to the Policy, and all debt issuances.

B. Finance and Business Services Manager

   The Finance and Business Services Manager of the District (the "Finance Manager") is responsible for managing and coordinating all activities related to the structure, issuance, reporting, communicating, and administration of long-term debt obligations. This includes contracting for professional services to assist in maintaining legal requirements and minimizing debt costs.

C. General Manager

The General Manager reviews the Policy and debt issuances prior to requesting Board approval.

Legal and Financial Requirements

The District is classified as an Enterprise Fund and is not subject to California Government Code Section 43605 relating to property value assessments. Debt issuances of the District may be restricted by debt covenants in existing indebtedness documents.

Acceptable and Prohibited Uses of Debt

The District will consider financing for the acquisition, substantial refurbishment, replacement or expansion of physical or intangible assets, including land improvements. The primary purpose of debt is to finance the following items:

A. Acquisition of a capital asset with a minimum useful life equivalent to the term of debt service.

B. Construction or reconstruction of a facility.

C. Acquisition of land, right of way, or long-term easements.

D. Refunding, refinancing, or restructuring debt, subject to refunding objectives in accordance with the Debt Issuance Practices Section of this Policy.

E. Interim cash flow financing, such as a line of credit, to support major construction projects that are funded through reimbursable grants or loans.

F. Long-term debt financing shall not be used to fund operating or maintenance costs.

Approved Debt Instruments

Prior to the issuance of debt, the District will carefully consider overall long-term affordability of the proposed issuance. The District shall not assume additional debt without conducting an objective analysis of the District's ability to assume and support additional debt service payments. Consideration will be given to long-term revenue and expenditure trends, the impact on operational flexibility, debt coverage requirements, and the overall impact to rate payers. Types of debt authorized under this policy include:

A. Revenue Bonds

Payment for revenue bonds is secured by fees for water service. The District is responsible for establishing and collecting sufficient revenue through rates to retire the debt.

B. Certificates of Participation

Certifications of Participation (COP) provide debt financing through a lease agreement, installment sale agreement or contract of indebtedness. These certificates are issued for capital improvements or land acquisition. It is typical for the asset being acquired to act as the security for the debt service payments on the certificates; however, in some instances revenue is pledged as security for payment. Regardless of the debt surety, the District is ultimately liable for all debt service.

C. Federal and State Government Loans

Government loans provide an important source of funds for capital financing at a low interest rate. Both the State and rating agencies require the District to disclose all incurred debt as they determine whether the District is able to meet required debt service coverage ratios.

D. Lines of Credit

A line of credit provides readily accessible funds to assist with cash flow. The District would typically use a line of credit to support significant projects that are funded by reimbursable grants, loans, or through Board-approved third party agreements.

E. Loans

The District may enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source, or sources of repayment. In the event the District chooses to proceed with a direct loan or private placement of debt, the District will issue a request for proposal seeking bids from responsible and credit-worthy financial institutions. The request for bids shall include a description of the project and terms and conditions of the financing in accordance with prudent financial and industry standards. The District may award solely based upon true-interest cost but may take into consideration call features, debt service structure, and the requirement of any reserve fund prior to making any award.

F. Refunding Bonds

Refunding bonds can be issued to replace and refinance outstanding revenue bond obligations. The use of refunding is often driven by the desire to lower interest rates and reduce payment amounts on older, more expensive debt.

Integration of Debt and Capital Improvement Budget

The Finance Manager is responsible for developing and maintaining a multi-year finance model, which takes into consideration operating revenues and expenses; the capital improvement program; and debt covenant and reserve requirements. This model is used in the annual budget process, as well as to evaluate "pay as you go" or debt financing strategies to fund capital improvements.

Policy Goals and Objectives Related to Debt

The District has adopted a strategic goal to "ensure fiscal responsibility." To assist in realizing this goal, the District seeks to maintain the highest possible credit ratings consistent with its current operating and capital needs. Consideration will be given to published ratings agency guidelines regarding best financial practice and guidelines for structuring its capital funding and debt strategies.

The District has identified a target debt coverage ratio of 1.7 (170%).

Debt Structuring Practices

A. Term

The District will structure its debt issuances so that the maturity of the debt is no greater than the economic or useful life of the capital project to be financed. Whenever possible, and to save on interest costs, the District should consider shorter-term borrowings where appropriate.

B. Repayment

Typically, the District desires level debt service payments over the term of the debt. The cost of capital, financial risk, current economic conditions, future financial flexibility, credit rating, and available cash flow will be evaluated to determine the most appropriate method of debt amortization for the issue.

C. Redemption Features

Redemption provisions and call features shall be evaluated in the context of each bond sale to enhance marketability of bonds; ensure flexibility related to potential early redemption; and to foster refunding transactions. The potential for additional costs, such as a call premium and potentially higher interest rates, will be evaluated in the decision to redeem bonds.

D. Fixed versus Variable Rate Debt

The District's practice is to issue fixed rate debt. Such debt provides absolute certainty, at the time of the bond sale, as to the level of principal and interest owed annually.

Specific conditions may arise where the District would consider variable interest bonds; however significant consideration should be given to the interest rate risk over the term of the financing. For variable rate debt, the variable rate may be based on one of a number of commonly used interest rate indices. Applicable issuances may include, but are not limited to, public marketed indexed notes, indexed notes or loans placed directly with financial institutions and other alternate variable rate and market access products as well as traditional variable rate demand obligations backed by liquid securities. Prior to the issuance of variable rate debt, the savings and other possible advantages compared to borrowing at a fixed rate will be subject to evaluation and comparative analysis.

Credit Enhancement

A credit enhancement may be used to establish or improve a credit rating on a District debt obligation. Types of credit enhancements include bond insurance, surety policies, or letters of credit. The Finance Manager will consider the use of a credit enhancement if it reduces the overall cost of a proposed financing.

Debt Issuance Practices

A. Professional Assistance

The Finance Manager shall be responsible for the solicitation and selection of financial professional services that are necessary to issue and manage debt. Such services, depending on the type of financing, may include financial advisory, underwriting, bond counsel, disclosure counsel, trustee, verification agent, arbitrage consulting, and special tax consulting. The District's attorney will also work with bond counsel on the issuance of debt, including any obligations under state and federal securities laws. The goal in selecting service providers, whether through a competitive process or, when appropriate, a sole source selection, is to achieve an appropriate balance between service and cost. The selection of consulting services will be consistent with the District's Purchasing Policy.

B. Method of Sale

In the event of an issuance of bonds or COP by the District, the Finance Manager will select the method of sale that best fits the type of bonds being sold, the prevailing market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. The following general methods can be used for the issuance of bonds:

- Competitive Sale – Bids for the purchase of bonds are opened at a specified place and time and are awarded to the underwriter or syndicate whose confirming bid represents the lowest true interest cost to the District.
- Negotiated Sale – The District selects the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banking firms interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the District to discuss different financing techniques with the underwriter in advance of the sale date, and is particularly appropriate for complex or unique bonds that may require education and marketing to the investment community.
- Private placement – This method involves selling the District's bonds to a limited number of sophisticated investors. Bonds are not sold to the general investor community. District staff will perform due diligence in comparing interest costs and fees in private placement to those using a competitive or negotiated sale. The District may use a placement agent to assist in identifying likely investors.
- Refunding criteria – Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered if and when there is a net economic benefit of refunding. Refundings which are non- economic may be undertaken to achieve District objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or debt service profile.

In general, refundings which produce a net present value savings of at least 2.5% of the refunded debt will be considered economically viable. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earning of any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future. Refundings with a negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt. The District will also consider the amount of uniform savings associated with the refunding. This calculation will review the realized savings in approximately equal annual amounts over the life of the refunded bonds. In addition, the Finance Manager may consult with a financial advisor to model other savings structures to meet the District's financial needs.

Debt Management Practices

A. Investment of Bond Proceeds

The proceeds of bond sales may be invested until used for the intended project in order to maximize utilization of public funds. The investments will be made to obtain the highest level of safety and will be guided by the District's Investment Policy and bond indenture guidelines. The Finance Manager will provide investment guidance to a Trustee or management firm holding bond proceeds whether for a project or debt service reserve funds.

B. Primary and Secondary Market Disclosures

The Finance Manager is responsible for providing annual disclosure information to established national information repositories for maintaining compliance with disclosure requirements by state and national regulatory bodies. This includes providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access system. Disclosures shall include the Annual Budget, the Comprehensive Annual Financial Report ("CAFR"), enumerated events defined by regulation or bond covenants; and any other information required by the bond indenture or regulatory body.

The Finance Manager may also employ the services of a firm to assist with financial disclosure requirements.

C. Arbitrage Rebate Monitoring and Filing

The District will, unless otherwise justified, use bond proceeds within the established timeframe pursuant to the bond ordinance, contract, or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of bond proceeds above the interest paid on the debt. If arbitrage occurs, the District will pay the amount of arbitrage to the Federal Government as required by Internal Revenue Service Regulation 1.148-11. The District will maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as designated by the Federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner.

D. Federal and State Law Compliance Practices

The Finance Manager is responsible for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board, the National Federation of Municipal Analysts, the Securities and Exchange Commission, and Generally Accepted Accounting Principles.

E. Compliance with Bond Covenants

In addition to financial disclosure and arbitrage compliance, the District is responsible for verifying compliance with all activities, agreements, and requirements outlined in the bond documents on an ongoing basis. This typically includes: ensuring an annual budget allocation to meet debt service payments; ensuring relevant fees are levied and collected at a level sufficient to meet indenture requirements and debt service payments; guaranteeing the timely payment of debt service to a trustee or paying agent; and maintaining compliance with insurance, reserves, and other mandates.

Ongoing Market and Investor Relation Efforts

The District is committed to providing full and complete financial disclosure to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, accurate financial information. This information will be communicated through budget documents, periodic financial documents and annual CAFRs. A minimum of three years of annual budgets and CAFRs are placed on the District’s website.

Internal Control Procedures Related to Intended Use

The District references the following internal controls to ensure all bond proceeds are expended for their intended use.

- Review approved use of bond proceeds with department representatives who are authorized to initiate contracts and spend funds to ensure expenditures are consistent with the terms of the bond sale.
- Educate staff responsible for preparing purchase orders and processing payments as to items that can be paid using bond proceeds, as well as the proper account coding.
- Require the Finance Manager to review draw-down requests.

It is intended that this segregation of duties and redundancy will assist in assuring that all expenditures are consistent with the bond documents.

Debt Record Keeping

The Finance and Business Services Department is responsible for maintaining the documentation listed within this Section for the term of each bond issue. With respect to tax-exempt bonds, records should be generally retained for three years following the final maturity of the bonds.

- A copy of the legal documents, closing transcripts, bond counsel opinion, and other relevant documentation
- Any credit enhancements or other elections made with the debt issuance
- Official Statements
- Resolutions
- Trustee certificates
- Any titles or assets purchased with bond proceeds
- Draw requests and supporting material, including contract and expense records
- Documentation pertaining to the investment of bond proceeds, which include purchase and sale of securities, rebate calculations, and investment income and related items
- Evidence of all sources of payment or security for the bonds

The District may maintain all records in a hard-copy or electronic format. All general ledger records, debt payment information, and purchasing order data are maintained in the District's financial software system. If the District chooses to store image copies in an electronic format, they must be in compliance with Section 4.01 of Internal Revenue Service Revenue Procedure 97-22. This Section requires an electronic storage system for image files that contains a retrieval system for indexing, storing, preserving, and retrieving, and reproducing all transferred information. The system must also ensure reasonable controls and quality assurances to ensure the integrity, accuracy, and reliability of the system. Detailed requirements can be found in Section 4.01 of Internal Revenue Service Revenue Procedure 97-22.

Use of Derivatives

This policy prohibits the use of derivative instruments, such as interest rate swaps, to hedge variable rate debt.

TEMPLETON COMMUNITY SERVICES DISTRICT

DEBT MANAGEMENT POLICY

Purpose of the Policy
This policy establishes parameters for evaluating, issuing and managing the District's debt and may be used as a guideline to promote sound financial management.

The District objective in issuing debt will be to (1) Achieve the lowest cost of capital (2) Ensure rate payers equity (3) Maintain high credit rating and access to credit enhancement (4) Preserve financial flexibility.

Prior to the issuance of new debt the District will hold a public hearing to outline the debt to be financed. This requirement shall not apply to the refinancing of existing debt.

Policy
The issuance of long-term debt is a valuable funding resource for the District. Used appropriately and prudently, long-term debt can minimize the District's charges and rates over time.

To minimize dependency on debt financing for capital projects, annual renewal and replacement capital projects will be adequately funded from rates. Funding levels for capital investments will be sufficient to meet capital improvement projections needed as outlined in the current Master Plan. Long-term debt will be considered only for large capital improvement projects or greater than normal capital plans. The District will be managed to at least meet, and potentially exceed, the minimum and target Debt Service Coverage (DSC) requirements as imposed by bond covenants. The District will not issue long-term debt to support operating costs.

A. Use of Long-Term Debt As a Funding Mechanism – Use of long-term debt will be minimized. The District may consider the use of long-term debt financing when it appears that a capital project, or other expenditures as deemed appropriate by the Board, is of such a magnitude that it will negatively impact the District's rates in the short-term. The benefit of long-term debt financing is that it will spread the costs of the capital asset over a longer period of time and will, therefore, approximate the useful life of the asset, and over time, charge those customers that benefit from that asset more equitably.
B. Types of Long-Term Debt – The District will strive to utilize the type of debt that has the lowest costs, while not imposing any burdensome covenants or reporting requirements.
C. Legal Covenants – The District will meet all bond covenants associated with the long-term debt. Bond covenants are legal obligations of the District.
D. Debt Service Coverage Covenants – Long-term debt issuances typically contain legal covenants regarding DSC. A DSC ratio is an important financial measure of the District's ability to repay the outstanding debt obligation, and is reviewed for adequacy by banks and rating agencies. Generically, the DSC ratio is the District's net operating income divided by the total annual debt service payment. For financial planning purposes, the targeted annual DSC ratio will be greater than or equal to 1.85 on all outstanding debt that carries such a covenant.

E. Reporting Standards – The District will fully adhere to all applicable Government Accounting Standards Board (GASB) requirements and recognized best practices for the accounting treatment and disclosure of debt obligation transactions in its audited financial statements and other relevant publications.
F. Revenue-Bonded Debt Capacity – The issuances of debt are supported by the revenues of the District. The ability of the District to fund and support revenue bonded debt will financially establish a debt level and capacity for revenue- bonded debt.
G. The District will issue debt only in the case where there is an identified source of repayment. Bonds 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.

Conditions for Debt Issuance

When debt issuance is determined necessary, the District will assess the market conditions and timing for debt issuance to include issuing debt – 1) in times of favorable market conditions, 2) when Bond ratings would qualify District issuances to be investment grade, and 3) when revenues are sufficient to adequately cover expected debt service and issuance costs.

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.

Bond credit enhancements will be considered when necessary for market acceptance and when costs are favorable to the District.

Conditions for Debt Refinancing

Debt refinancing (refunding) is an important debt management tool for the District. There are three key concepts that must be taken into consideration when evaluating a debt for refunding:

1. Financial and Policy Objectives
2. Financial Savings/Results of Financing
3. Bond Structure and Escrow Efficiency

Financial and Policy Objectives – The District may undertake a refinancing for a number of financial and/or policy objectives, including to achieve debt service savings, eliminate restrictive debt/legal covenants, restructure the stream of debt service payments, or to achieve other policy objectives. Although in most circumstances the District may undertake a refunding to obtain economic savings, it may refund an issue to restructure its debt portfolio in order to obtain budgetary/cash flow relief or to address exposure to other costs/liabilities and to extend the maturity.

Financial Savings/Results of Financing - The financial framework regarding the evaluation of refunding opportunities is to be developed and evaluated by the District Treasurer, typically to include the efforts of outside financial advisors. It is important to note that federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue[2]. As such, the District must take greater care (i.e., require a higher savings threshold) when evaluating an advance refunding opportunity.

In certain circumstances, lower savings thresholds may be justified. For example, when an advance refunding is being conducted primarily for policy reasons (other than economic savings), interest rates are at historically low levels or the time remaining to maturity is limited, and as such, future opportunities to achieve greater savings are not likely to occur.

Bond Structure and Escrow Efficiency[1] – The District's debt management practices should anticipate the potential for future refundings. When debt is issued, careful attention should be paid to the bond structure to address features that may affect flexibility in the future. To that end, upon debt issuance the District shall consider: optional redemption provisions, bond coupon characteristics giving up call rights for certain maturities in exchange for a lower interest rate on the bonds, call provisions that permit the redemption of bonds in any order of maturity or on any date, call provisions that permit the issuer to call bonds at the earliest date without incurring a significant interest-rate penalty, and coupons on callable bonds priced as close to par as possible at the time of original issue.

[1] Escrow Efficiency - The lower the cost of the escrow the more efficient the escrow. Also, in order to be efficient, escrow securities need to mature or pay interest when debt service payments of the refunded escrow are due.

[2] Current vs. Advance Refunding - There are two types of refundings, as defined by Federal Tax laws; a current refunding in which a refunding takes place (i.e., refunding bonds are sold) within 90 days of the optional call date, and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date. Federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue.

Interest Rate Swaps

The incurring or carrying of variable-rate debt obligations by the District involves a variety of interest rate payments and other risks that interest rate swaps are available to offset, hedge, or reduce. It is the policy of the District to utilize such interest rate swaps to better manage its debt portfolio. The District will consider executing an interest rate swap transaction if it expects the swap transaction will result in any of the following:

A. Reduce exposure to changes in interest rates on a financial transaction;
B. Result in a significantly lower net cost of borrowing with respect to the District's debt consistent with an established target; or
C. Manage variable interest rate exposure consistent with prudent debt practices and guidelines as approved by the Board.

Savings Target

Interest rate swaps will require a significant financial benefit or savings versus traditional fixed-rate debt. For an interest rate swap intended to produce the effect of a synthetic fixed rate transaction, the swap transaction must generate 3% or greater net present value savings compared to standard fixed-rate bonds which have the same optional redemption features.

Restrictions

The District <u>will not</u> enter into any swap transaction

a) for speculative purposes.
b) if the swap presents an extraordinary risk to the District's liquidity to terminate the agreement due to unforeseen events.
c) if there is insufficient price transparency to allow for fair market valuation.

Provider Requirements
The transaction provider will have a credit rating of AA (or equivalent) or better from at least two nationally recognized credit rating agencies (at the time of agreement execution). The transaction provider will have a demonstrated record of successfully executing derivative transactions and have a minimum capitalization of $2 billion.

Use of Independent Advisor
The District will use a professional advisor or designated swap representative ("Swap Advisor") to assist in the assessment, structuring, and pricing of proposed or existing interest rate swaps. The Swap Advisor will be a firm which:

i. is a Municipal Advisor registered with the Securities and Exchange Commission;
ii. has sufficient knowledge to evaluate the swap transaction and risks;
iii. is not subject to a statutory disqualification;
iv. is independent of the swap dealer or major swap participant;
v. undertakes a duty to act in the best interests of the District;
vi. provides appropriate and timely disclosures to the District; and
vii. evaluates fair pricing and the appropriateness of the swap.

Authority
The General Manager and Finance Officer are responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

Policy Review
This Policy will be reviewed at least biennially.