Midpeninsula Regional
Open Space District

R-18-69
Meeting 18-27
June 27, 2018

AGENDA ITEM 3

AGENDA ITEM

New Board Policy 3.01 – Banking Relationship Management Policy, and Annual Review of Finance Policies for 2018

GENERAL MANAGER'S RECOMMENDATION

1. Approve the proposed new Board Policy 3.01 – Banking Relationship Management Policy
2. Retire Board Policy 3.02 – Safe Deposit Box
3. Approve updates to Board Policy 3.07 – Fund Balance
4. Approve Board Policy 3.08 – Statement of Investment for Fiscal Year 2018-19
5. Affirm Board Policy 3.09 – Debt Management for Fiscal Year 2018-19

SUMMARY

The Board is requested to approve a new Banking Relationship Management Policy covering Banking Relations and Bank Account Administration, Financial Instrument Signatories, Safe Deposit Box, and the Purchasing Card Program. This proposed new policy would supersede previous policies on Financial Instrument Signatories (3.01) and Safe Deposit Box (3.02). Additionally, the Board is asked to approve several policy updates to Fund Balance (3.07), Statement of Investment (3.08), and Debt Management (3.09) as part of an annual policy review. The General Manager recommends the Board approve the new policy and policy updates as part of an annual review to ensure Midpeninsula Regional Open Space District (District) policies remain current.

DISCUSSION

Each year, the General Manager together with the Chief Financial Officer reviews the District's finance policies in preparation for an annual review and affirmation of the policies by the Board. The review includes the Disclosure for Bond Issuance Policy (3.06) and the Statement of Investment (3.08), among others. The 2018 review began as part of the budget cycle this past spring and will continue into the coming months. At this time, the General Manager recommends the following policy updates, with further updates expected later this year:

<u>3.01 Banking Relationship Policy (NEW)</u>
This policy combines and supersedes the previous policies on Financial Instrument Signatories (3.01) and Safe Deposit Box (3.02). It also adds policy on Banking Relations and Bank Account Administration as well as policy regarding the District's Purchasing Card Program.

<u>3.02 Safe Deposit Box Policy retired and included in 3.01</u>
Upon adoption of the new Banking Relationship Policy, the Safe Deposit Box Policy would be retired and the number reserved for the future Accounting Policy, to be developed next fiscal year.

<u>3.03 Public Contract Bidding</u>
Not yet reviewed, updates anticipated next fiscal year.

<u>3.04 Budget and Expenditure Authority Policy</u>
Reviewed and no changes proposed.

<u>3.05 Capital Expenditure and Depreciable Fixed Assets</u>
Not yet reviewed, updates anticipated next fiscal year.

<u>3.06 Disclosure for Bond Issuances Policy</u>
Reviewed and no changes proposed.

<u>3.07 Fund Balance Policy</u>
Updated for the newly created Committed Reserves for Capital Maintenance and for the Promissory Note Sinking Fund.

<u>3.08 Statement of Investment</u>
Minor update to Paragraph 4 to align with the Fund Balance Policy.

<u>3.09 Debt Management Policy</u>
Reviewed and no changes proposed.

FISCAL IMPACT

No new fiscal impact. The revised policies will streamline existing procedures for banking, and compliance with obligations and practices under current debt issuances.

BOARD COMMITTEE REVIEW

The Chief Financial Officer presented this item to the Action Plan and Budget Committee (ABC) on May 30, 2018. The ABC unanimously recommended approval of the policy and related updates to the Board of Directors.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This proposed action is not a project under the California Environmental Quality Act and no environmental review is required.

NEXT STEPS

Upon approval by the Board, staff will implement the policy and related updates.

Attachments:
1. Banking Relationship Policy 3.01
2. Fund Balance Policy 3.07
3. Statement of Investment 3.08
4. Debt Management Policy 3.09

Responsible Department Manager:
Stefan Jaskulak, Chief Financial Officer

Prepared by:
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Board Policy Manual

~~Financial Instrument Signatories~~ Banking Relationship Management	Policy 3.01 Chapter 3 – Fiscal Management
Effective Date: 6/27/18	Revised Date: 6/27/18
Prior Versions: 11/13/13, 09/14/16	

Purpose

The Banking Relationship Management policy provides a framework around Banking Relationships, Financial Instrument Signatories, Safe Deposit Box, and the Purchasing Card Program. This policy supersedes Board policies 3.01 Financial Instrument Signatories and 3.02 Safe Deposit Box.

Policy

I. Banking Relationships and Bank Account Administration

A. The District has a fiduciary duty to protect and safeguard public funds. The majority of District funds are held on deposit in the Santa Clara County Commingled Pool. The District Controller shall review the County's investment reports on a quarterly basis. Funds shall be transferred from the County to the District's operating/payroll accounts to meet near-term liquidity requirements.

B. Any change in the District's banking relationship requires a resolution of the Board.

~~I.~~II. Financial Instrument Signatories

A. The authorized signatories to checks, warrants, withdrawal applications, and the Santa Clara County claim forms of the Midpeninsula Regional Open Space District for payroll or for amounts less than $5,000 shall be any one of the following ~~four~~ employees: (i) the General Manager, (ii) either one of the Assistant General Managers, (iii) the Chief Financial Officer/Director of Administrative Services.

B. The authorized signatories to checks, warrants, withdrawal applications, and Santa Clara C~~c~~ounty claim forms of the Midpeninsula Regional Open Space District in amounts of $5,000 or greater, ~~(~~excluding payroll,~~)~~ shall be any two of the employees listed in A. above.

C. Signatories for Bond Documents, to issue bonds or execute subsequent draw requests or other debt management documents, will include the General Manager, Controller, General Counsel, and the Chief Financial Officer/Director of Administrative Services, or as otherwise noted in the previously issued bond documents or B~~b~~oard resolutions.

~~II.~~III. Safe Deposit Box

A. The authorized signature for entrance into the District's safe deposit boxes is any of the following: General Manager, either one of the Assistant General Managers, Chief

Financial Officer/Director of Administrative Services, District Clerk, and Senior Accounting Technician.

IV. Purchasing Card Program

A. The General Manager or designee shall establish a list of District positions authorized to receive a District purchasing card, as well as individual credit limits. District staff may be issued a purchasing card to conduct District business for supplies, materials, equipment, travel, services, and other approved District expenses in accordance with this list.

B. The purchasing card program is considered a banking service. The District will maintain adequate internal controls in order to prevent misuse or fraud, including, but not limited to, monthly submission of receipts by the cardholders and approval of those receipts by the cardholder's supervisor.

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Fund Balance Policy in Accordance with GASB Statement No. 54	**Policy 3.07** **Chapter 3 – Fiscal Management**
Effective Date: 11/25/14	Revised Date: 06/27/2018
Prior Versions: 11/25/14, 10/26/16	

Purpose

The following policy is created and approved by the Board of Directors in order to [1] provide adequate funding to meet the District's short-term and long-term plans, [2] provide funds for unforeseen expenditures related to emergencies such as natural disasters, [3] strengthen the financial stability of the District against present and future uncertainties such as economic downturns and revenue shortfalls, and [4] maintain an investment-grade bond rating. This policy has been developed, with the counsel of the District auditors, to meet the requirements of GASB 54.

This policy identifies the required components of fund balance, the level of management authorized to approve or change target balances in each fund, the amounts that the District will strive to maintain in each fund, and the conditions under which fund balances may be spent, reimbursed and reviewed.

Policy

The components of District fund balance are as follows:

Non-Spendable fund balance includes amounts that cannot be spent either because they are not in spendable form, e.g. prepaid insurance, or because of legal or contractual constraints. At all times, the District shall hold fund balance equal to the sum of its non-spendable assets.

Restricted fund balance includes amounts that are constrained for specific purposes which are externally imposed by constitutional provisions, enabling legislation, creditors, or contracts. Individual funds will be identified by the General Manager and Controller and the amounts set based on legal or contractual requirements. Funds may only be spent as specified by contract or as externally directed. The continuing need for each fund and the amount reserved will be reviewed annually.

Committed fund balance includes amounts that are constrained for specific purposes that are internally imposed by the District Board of Directors. Individual funds and target amounts will be established by the Board. Committed funds may include but are not limited to: Capital Maintenance, Equipment Replacement, Infrastructure, Natural Disasters, and Promissory Note. Projects to be funded by committed funds require the approval of the Board. The continuing need for each fund and the amount reserved will be reviewed annually. Any changes require the approval of two-thirds of the Board.

Assigned fund balance includes amounts that are intended to be used for specific purposes that are neither restricted nor committed. Such amounts may be assigned by the General Manager if authorized by the Board of Directors to make such designations. Projects to be funded by assigned funds require the approval of the General Manager. The continuing need for each fund and the amount reserved will be reviewed annually.

Unassigned fund balance includes amounts within the general fund, which have not been classified within the above categories. The minimum amount of unassigned fund balance is calculated as 30% of the Budgeted General Fund Tax Revenue. This minimum unassigned fund balance is to be held in reserve in consideration of unanticipated events that could adversely affect the financial condition of the District and jeopardize the continuation of necessary public services. Any spending from this minimum general fund reserve requires the approval of the Board. Any such spending will be reimbursed within two years. If such reimbursement exceeds 5% of the Budgeted General Fund Tax Revenue, the Board may decide to limit the reimbursement at 5% and extend the reimbursement period beyond two years, as needed. The minimum reserve amount calculation will be reviewed annually as part of the annual budget process.

The specific reserve funds are as follows:

Restricted Funds

[1] **Retiree Healthcare Plan Fund**: established in 2008 with a $1.9 million contribution to the California Employers' Retiree Benefit Trust; all withdrawals per Board-approved plan; amount of annual contribution authorized by the Board as part of the annual budget.

[2] **Hawthorns Fund**: established in 2011 with a $2.0 million endowment from the Woods Family Trust, to provide stewardship funding for the Hawthorns property in Portola Valley; amount to be withdrawn each year authorized by the Board as part of the annual budget.

Committed Funds

[1] **Capital Maintenance Fund**: Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will require District assets to be in good working order; annual maintenance costs for existing District assets are anticipated. Funding for such capital maintenance expenditures is not available from general obligation bonds under Measure AA. The General Manager will recommend, and the Board may authorize, an initial reserve amount associated with maintenance of a particular improvement. The amount to be withdrawn each year for the Capital Maintenance Fund will be authorized by the Board as part of the annual budget.

[2] **Equipment Replacement Fund**: Implementation of District projects requires corresponding purchase and replacement of field and office equipment and vehicles. The General Manager will recommend, and the Board may authorize, an initial reserve amount associated with equipment

replacement needs. The amount to be withdrawn each year for the Equipment Replacement Fund will be authorized by the Board as part of the annual budget.

[3] **Infrastructure Fund**: Implementation of the 2011 Strategic Plan, 2014 Vision Plan, and Measure AA projects will require expansion of field and office facilities beginning in fiscal 2016. The amount to be withdrawn each year for the Infrastructure Fund will be authorized by the Board as part of the annual budget.

[4] **Natural Disaster Fund**: The District must be prepared to undertake emergency expenditures required to respond quickly to a major fire, earthquake or flood. The General Manager will recommend, and the Board may authorize an initial reserve amount to prepare for natural disasters. All withdrawals from the Natural Disaster Fund require the approval of the General Manager.

[5] **Promissory Note Sinking Fund**: The District has the Hunt Promissory Note, an interest only loan with a balloon principal payment due in FY2022/23. The General Manager will recommend, and the Board may authorize an initial reserve amount, with annual contributions continuing through FY2022/23. The amount to be withdrawn from the Promissory Note Fund (anticipated in FY2022/23; intended for the principal balloon payment) will be authorized by the Board as part of the annual budget. Once the principal has been paid and the Promissory Note is retired, this paragraph may be administratively removed from the Policy.

Assigned Funds

None

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Statement of Investment	**Policy 3.08** **Chapter 3 – Fiscal Management**
Effective Date: 1/8/97	**Revised Date:** 6/27/18
Prior Versions: 1/8/97; 1/10/01; 1/16/02; 1/8/03; 1/14/04; 1/12/05; 1/11/06; 1/10/07; 1/16/08; 1/13/10; 1/12/11; 1/11/12; 1/24/13; 1/22/14; 1/28/15; 8/12/15; 8/10/16; 5/10/17	

Goals

Goal 1. Capital Preservation
The primary goal shall be to safeguard the principal of invested funds. The secondary objective shall be to meet the liquidity needs of the District. The third objective shall be to achieve a return on funds consistent with this Policy. Temporarily idle funds shall be invested in a conservative manner, such that funds can always be withdrawn at, or just above or below, full invested value. Investments that offer opportunities for significant capital gains and losses are excluded.

Goal 2. Liquidity
Temporarily idle funds shall be managed so that normal operating cash needs and scheduled extraordinary cash needs can be met on a same day basis. Investments shall be sufficiently liquid to provide a steady and reliable flow of cash to the District to insure that all land purchases can be made promptly (within two weeks).

Goal 3. Income
Temporarily idle funds shall earn the highest rate of return that is consistent with capital preservation and liquidity goals and the California Government Code.

Guidelines

1. Determination of Idle Funds

The Controller shall prepare a cash flow projection prior to all investment decisions involving securities with a term to maturity exceeding one year. This cash flow projection shall be reviewed and evaluated by the General Manager or Chief Financial Officer (CFO). The General Manager or CFO are responsible for approving the Controller's designation of the amount of funds available for investment for longer than one year.

2. Restricted ~~Reserves~~Monies

[a] MROSD Retiree Healthcare Plan: All funds are to be held by either: the Section 115 Trust California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS,

or 2) the Section 115 Trust offered through PARS~~and managed by CalPERS.~~ as approved by Board Resolution 18-07.

[b] Hawthorn Endowment Fund: All funds will be held in a separate account and invested in accordance with this policy.

[c] Debt Service Reserve Funds Held by Bond Trustees: Funds held by such trustees shall be invested in accordance with the bond indenture or other agreement providing for the issuance and management of such debt.

3. General Fund Committed Reserves

At least one-half of the total general fund committed reserve requirement shall be maintained, at all times, with the Santa Clara County Pooled Investment Fund (SCCPIF).

4. General Fund Un~~-~~Assigned ~~Contingency~~ Reserves

In addition to any committed fund reserve requirement, a general fund ~~contingency~~ reserve ~~equivalent to 30% of the currnet year's budgeted General Fund Tax Revenue~~per the Fund Balance Policy 3.07 ~~of at least $10 million~~ shall be maintained, at all times, with the SCCPIF.

5. General Obligation Bond Proceeds Held by Fiscal Agent

Bond Proceeds held by the District's Fiscal Agent, either in the Debt Service Fund or Bond Proceeds Fund, shall be invested through the investment department of the Fiscal Agent and in accordance with the Fiscal Agent Agreement.

6. Non-Invested Funds

Idle District funds not otherwise invested as permitted by this Policy shall be deposited with the Santa Clara County Pooled Investment Fund, the San Mateo County Treasurer's Pooled Investment Fund, the State of California's Local Agency Investment Fund or CalTRUST.

7. Selection of Investments

The Controller is responsible for selecting investments and directing such security transactions that fit within the amounts and maturities as recommended by the Controller~~, as well as directing security transactions.~~ The Controller will communicate such actions to ~~and by~~ the General Manager and ~~or~~ CFO. ~~The Controller is also responsible for directing security transactions.~~

8. Investments Instruments and Deposit of Funds

Investments and deposits of funds shall be limited to those allowed by and subject to the procedures of Government Code Section 53600 *et seq.* and 53635 et *seq.* In the event of any conflict between the terms of this Policy, and the Government Code, the provisions of the Government Code shall prevail. Investments shall not be leveraged. Investments, and "derivatives," that offer opportunities for significant capital gains and losses are excluded. If after purchase, securities are downgraded below the minimum required rating level, the securities shall be reviewed for possible sale with a reasonable amount of time after downgrade. Significant downgrades and the action taken or to be taken will be disclosed in the next monthly report.

9. Maximum Maturity

The average maturity of the total District investment portfolio shall not exceed eighteen months and no investment, except for debt service reserve funds held by bond trustees, shall have a maturity of more than three years from the date of purchase. The maturity of investments in trustee-held debt service reserve funds shall not exceed the final debt service payment date of the bonds.

10. Diversification

Investments shall meet the diversification test of Government Code Section 53601.7(c), stating that no more than 5% of the total investment portfolio may be invested in the securities of any one issuer, except for the obligations of the U.S. Treasury or U.S. Government Agencies.

11. Marketability

For investments other than bank certificates of deposits the breadth of ownership and number of securities outstanding shall be sufficient to establish a secondary market in which investments can be readily converted to cash without causing a material change in their market value.

12. Acceptable Banks

Bankers' Acceptances and Negotiable Certificates of Deposit may be purchased only from the District's commercial bank or banks and savings and loan associations with over $1~~,000,000,000~~ billion of deposits and reporting profitable operations and which meet all applicable criteria of the Government Code. Certificates of Deposit may be purchased from other banks within Santa Clara and San Mateo Counties which meet all applicable criteria of the Government Code if the principal is fully insured by the Federal Deposit Insurance Corporation.

13. Acceptable Collateral

Securities collateralizing bank or savings and loan deposits must be rated "A" or higher.

14. Investments in Name of District

All investments purchased shall stand in the name of the District.

15. Reporting

The Controller shall submit a report of the District's investment portfolio and security transactions to the Board of Directors by the second Friday of each calendar month in accordance with Government Code Sections 53607 and 53646. Such reports shall also be submitted to the General Manager, CFO and to the District's auditor.

16. Purchase of Securities

The Controller is authorized to purchase securities through the investment department of the District's bond trustees and fiscal agents and as otherwise permitted by the Government Code. Any account resolutions required by bank investment departments will be submitted to the Board of Directors for approval prior to any trading through that bank. The bank or other investment institution from which authorized securities are purchased shall be instructed in writing only to purchase securities in the name of the District and that all matured funds shall be returned to the District's commercial bank account. The bank shall also be instructed to send receipts for all transactions to the CFO and the District accounting department.

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Debt Management Policy	Policy 3.09 Chapter 3 – Fiscal Management
Effective Date: 7/12/2017	Revised Date: N/A
Prior Versions: N/A	

Purpose

The Debt Management Policy and procedures contained herein (the "**Debt Management Policy**") sets forth certain debt management objectives for the Midpeninsula Regional Open Space District (the "**District**") and establishes overall parameters for issuing and administering the District's debt in compliance with applicable federal and state securities laws. The Board may issue debt that does not comply with this policy should the Board determine that doing so is necessary or desirable, and the issuance of any such debt shall be conclusive evidence of such determination. This Debt Management Policy is closely related to the policy for Initial and Continuing Disclosures Relating to Bond Issuances – Policy 3.06 of Chapter 3 Fiscal Management (the "Disclosure Policy").

Policy

Article I: Key Participants and Responsibilities

The Key Participants in the Debt Management process are the members of the Financing Group as identified and designated in the Disclosure Policy, Section 1.03. The Responsibilities of the various members of the Financing Group are detailed in Section II of the Disclosure Policy. Disclosure Policy

Article II: Debt Limits

Section 2.01. Purpose for Debt Issuance. The District may issue new debt to finance and refinance capital improvement projects or land acquisitions for either General Fund purposes or in support of Measure AA portfolios and projects. Any General Fund debt must be repaid via the General Fund tax revenue and budget, whereas any debt issued under Measure AA must be repaid via the special property tax levy as authorized under Measure AA. As part of the calculation to determine the need for new debt, the District will review the useful life of the proposed projects and ensure this useful life is not significantly shorter than the term of the debt, and in any case compliant with Federal tax law restrictions governing the weighted average maturity of a debt issue in relation to the financed projects' useful life. The approach to determine the amount of new debt to be issued will include an assessment of any self-funded pay-go funding sources and will be integrated into the District's multi-year capital plan.

Section 2.02. Legal Debt Limitations. The District is bound by, or utilizes, four different debt limitations: State, General Fund budget, bond Indenture covenants and Measure AA voter authorization.

i. Under Public Resources Code Section 5568, the District's legal authority to incur indebtedness is limited to five percent of the assessed valuation of the real and personal property situated in the District.

ii. The General Fund debt limitation is constrained by the property tax received, less ongoing operating expenses. Each year, the annual budget is prepared and modeled into the Controller's thirty-year cash flow, which includes conservative inflation and projects the viability of any increases in operating, capital or debt service in the General Fund. Any proposed General Fund debt issuance, new or refunding, is modeled using the Controller's cash flow model.

iii. General Fund debt is limited by covenants made by the District to bond holders in the bond indenture. The District covenants it will not issue debt that is senior in priority to the existing general fund revenue bonds. In addition, debt on parity with existing revenue bonds is limited by the District Act (Article 3 of Chapter 3 of Division 5 of the Public Resources Code), which requires that total debt outstanding does not exceed the amount of general fund property tax revenues anticipated by the District for the next five-year period, and that annual tax revenue in the most recent audited fiscal year exceeds maximum annual debt service of outstanding bonds by 125%.

iv. The Measure AA debt limitation is constrained by the $300 million voter authorization per the 2014 referendum as well as the limitation that Measure AA annual debt service must be payable with the Measure AA property tax collections not to exceed the self-imposed tax rate of $3.18 per $100,000 of Assessed Value. The calculation to ensure that the debt service does not exceed a tax rate in excess of $3.18 per $100,000 of Assessed Value shall be calculated at issuance of the debt with the information available at that time and exclude any one-time funds, such as bond premium. Should the tax rate exceed $3.18 at any time after the debt has been issued, no new debt shall be issued until such time as the debt service payments can again be paid from tax collections not exceeding a $3.18 tax rate.

Section 2.03. <u>Types of Permitted Debt</u>. The District may issue a variety of debt instruments and obligations.

i. Long-term borrowing (maturity greater than 1 year) may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs.

ii. Short-term borrowing (maturity of one year or less), such as lines of credit or commercial paper, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs.

iii. All long-term debt shall normally be issued as fixed rate debt. Variable rate debt may be issued if determined to be advantageous to the District.

iv. <u>Relationship of Debt to Capital Improvement Program: The District maintains a five-year Capital Improvement plan, which it expects to fund through a combination of Measure AA proceeds, General Fund Monies, and grants. While the District does not expect debt to be the sole source of funding for the CIP, the District may issue debt in addition to bonds approved under Measure AA (including those types of debt discussed herein) should doing so become necessary to meet the District's capital needs.</u>

v. <u>Policy Goals Related to District Objectives: The District's objective is to meet its capital needs economically, and intends only to use debt as a funding source when the Board determines doing so would be both fiscally responsible and aligned with the District's policy objectives.</u>

Article III: Debt Structuring

Debt issued by the District, new or refunding, may have various features and structures.

i. The debt shall be callable no later than eleven years from the date of issuance. If the final maturity is less than fifteen years, a call feature shorter than ten years shall be evaluated by the CFO and Controller together with the financial advisor and underwriter as deemed appropriate by the CFO and Controller. If advantageous to the District, the CFO and Controller may recommend the use of a shorter call feature for maturities fifteen years or longer as well.

ii. The maturity for new debt issued is usually thirty years, unless the useful life of the projects is significantly shorter than thirty years, in which case the maturity shall be shortened to match the useful life, or, in the case of a large one-time capital expenditure, where the cash flow need may be much shorter than thirty years. The final maturity for refunding debt shall be no later than the final maturity of the refunded debt.

iii. Given the District's historically very strong credit ratings, utilizing credit enhancement in connection with a debt issuance has not been financially advantageous to the District. However, should credit enhancement prove effective in lowering the District's all-in borrowing cost on a debt issuance in the future, the District retains the option to utilize such credit enhancement. Such evaluation will be made by the CFO and Controller together with the financial advisor and underwriter as deemed appropriate by the CFO and Controller.

iv. The use of derivative products (a financial instrument which 'derives' its value from another instrument) is not permitted.

Article IV: Debt Issuance

The District shall assess the impact of new debt issuance on the thirty-year long-term affordability model as developed by the Controller. This model includes future debt service, capital improvement projects and operational expenditures, adjusted for inflation and growth over thirty years. Any debt issued, and the associated debt repayment schedule, must be evaluated and affordable according to this thirty-year model.

Section 4.01. <u>Credit Objectives</u>. The District shall make every reasonable effort to maintain its high credit ratings. The District shall seek a credit rating on all new publicly placed bond issues from at least one nationally recognized credit rating agency. The District shall maintain a line of communications with the bond rating agencies reporting annual financial reports, budget and other major information as they occur.

Section 4.02. <u>Method of Sale</u>. The District may issue debt via negotiated sale, a competitive bid process or private placement. The CFO and Controller, together with the Financial Advisor, shall review and evaluate the best method of sale for each issuance.

Section 4.03. Selection of External Financial Professionals. The District shall utilize the services of various independent advisors, consultants and other financial institutions and professionals. Such services, depending on the type of financing, may include financial advisor, underwriter, bond counsel, disclosure counsel, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The financial advisor, underwriter, bond counsel, and disclosure counsel shall be selected via a competitive Request for Proposal (RFP) process initiated and managed by the Chief Financial Officer and evaluated by the Disclosure Working Group. Other services may be contracted via sole source or directly authorized.

Section 4.04. Refunding of Debt. The District shall periodically review its outstanding debt to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding. In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically beneficial. Refunding which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. In evaluating the economic benefit of refundings considered "advance refundings", the District will also evaluate the escrow efficiency in consultation with the District's financial advisor and underwriter.

Article V: Debt Management

Section 5.01. Disclosure. The District's Board of Directors adopted a separate Disclosure Policy, which policy includes 15c2-12 requirements, initial and continuing disclosure requirements, and outlines the responsibilities of District staff, consultants and advisors. Disclosure Policy

Section 5.02. Investment of Bond Proceeds. The District shall invest bond proceeds consistent with applicable federal and state law and tax requirements, including any arbitrage calculations and reporting, as well as consistent with the District's Board adopted Policy titled Statement of Investment 3.08. Statement of Investment

Article VI: Controls, Reporting, and Miscellaneous

Section 6.01. Internal Controls. To ensure the bond proceeds are managed and spent as intended, the District has the following processes in place:

i. Reporting of bond funds generated by a financing secured by General Fund revenues shall be included in the Annual Financial Report.

ii. Reporting and review of bond funds spent under Measure AA authorization is outlined in the Measure AA election documentation:

An Independent Citizen Oversight Committee will be formed to verify expenditures of bond proceeds. The Independent Citizen Oversight Committee will consist of seven at-large members, all of whom shall be District residents. The Citizen Oversight Committee will be selected by the Board and interviewed and approved in open session, and will be subject to the conflict of interest constraints of the California Political Reform Act.

The responsibilities of the Committee include:

- *Review Plan expenditures on an annual basis to verify conformity with the Expenditure Plan.*

- *Review District's Annual Audit and Annual Accountability report and present the Committee's findings to the Board at a public meeting.*

- *Review any proposed amendments to the Expenditure Plan.*

iii. Reporting of bond funds expended to refund existing bonds shall be included in the final refunding report to the Board of Directors.

Section 6.02. Documents to be Retained. Section 5.01 of the Disclosure Policy provides document retainage requirements applicable to debt issuances. Disclosure Policy

Section 6.03. Waivers. In addition to the General Manager's authority to adopt an Administrative Procedure to make this Board Policy more specific, any provision of this Board Policy or any related administrative procedure may be waived at any time by the General Manager, with the written confirmation to the members of the Disclosure Working Group. This authority to waive a provision of this policy is triggered only if such waiver is necessary for timely and effective issuance of debt in compliance with any applicable laws. Any waivers made under this provision shall be reported to the Board of Directors, with conforming revisions recommended for the Board's consideration at the next update of this Board Policy and no later than three months from the implementation of such waiver.

Section 6.04. Periodic Review. This policy shall be reviewed and affirmed annually by the Board of Directors.