



AMENDED - NOTICE OF FINANCE & ADMINISTRATION COMMITTEE MEETING/SPECIAL MEETING OF THE BOARD OF DIRECTORS (FINANCE & ADMINISTRATION)

(Per paragraph 3 on page 10 under subsection *Committee Meetings* of the Board Handbook: The Board, as a practice, generally does not take final action on items during committee meetings, unless District staff determines the urgency of the item requires immediate action that cannot be delayed until a subsequent regular bi-monthly Board meeting.)

MEETING DATE: August 24, 2023

TIME: 9:30 a.m.

LOCATIONS: This meeting will be held remotely and in-person.

Open Session	Remotely
Marin Water Board Room 220 Nellen Avenue Corte Madera, CA 94925	URL: https://us06web.zoom.us/j/81110533069 Webinar ID: 811 1053 3069 Phone Call: 1-669-444-9171

EMAILED PUBLIC COMMENTS: Submit your comments in advance of the meeting to BoardComment@MarinWater.org. All emailed comments received by 7:30 a.m. on the day of the meeting will be provided to the Board of Directors prior to the meeting. Please do not include personal information in your comment that you do not want published on our website such as phone numbers and home addresses.

PARTICIPATION DURING THE MEETING:

In-person Attendee: Fill out a speaker card prior and place it next to the Board Secretary. List the number of the agenda item(s), for which you would like to provide a comment. Once you’re called, proceed to the lectern to make your comment.

Virtual Attendee: Click on the “raise hand” button on the bottom of the Zoom screen. If you are joining by phone and would like to comment, press *9 and staff will call on you by the last four digits of your phone number.

(Note: The board president may shorten the amount of time for public comment due to large numbers of both in-person and virtual attendees.)

AGENDA ITEMS	RECOMMENDATIONS
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Call to Order and Roll Call	
Adoption of Agenda	<i>Approve</i>

Public Comment - Items Not on the Agenda

Members of the public may comment on any items not listed on the agenda during this time. Comments will be limited to three (3) minutes per speaker, and time limits may be reduced by the board president to accommodate the number of speakers and ensure that the meeting is conducted in an efficient manner.

Calendar (9:40 a.m. – Time Approximate)

1. Minutes of the Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) of May 25, 2023 and June 22, 2023 <i>(Approximate Time 1 Minute)</i>	<i>Approve</i>
2. Monthly Financial Update - July 2023 <i>(Approximate Time 20 Minutes)</i>	<i>Information</i>
3. Quarterly Investment Report – June 2023 - Corrected Attachment 3A <i>(Approximate Time 5 Minutes)</i>	<i>Information</i>
4. Financial Policy Review - Corrected Attachment 4A <i>(Approximate Time 20 Minutes)</i>	<i>Information</i>

Adjournment (10:26 a.m. – Time Approximate)

ADA NOTICE AND HEARING IMPAIRED PROVISIONS:

In accordance with the Americans with Disabilities Act (ADA) and California Law, it is Marin Water’s policy to offer its public programs, services, and meetings in a manner that is readily accessible to everyone, including those with disabilities. If you are an individual with a disability and require a copy of a public hearing notice, an agenda, and/or agenda packet in an appropriate alternative format, or if you require other accommodations, please contact Board Secretary Terrie Gillen at 415.945.1448, at least two days in advance of the meeting. Advance notification will enable Marin Water to make reasonable arrangements to ensure accessibility.

***MARIN WATER BOARD OF DIRECTORS ORDER OF ROLL CALL:** RANJIV KHUSH, LARRY RUSSELL, MATT SAMSON, MONTY SCHMITT, AND JED SMITH

INFORMATION AGENDAS ARE AVAILABLE FOR REVIEW AT THE CIVIC CENTER LIBRARY, CORTE MADERA LIBRARY, FAIRFAX LIBRARY, MILL VALLEY LIBRARY, MARIN WATER OFFICE, AND ON THE MARIN WATER WEBSITE (MARINWATER.ORG)

FUTURE BOARD AND COMMITTEE MEETINGS AND UPCOMING AGENDA ITEMS:

Dates	Meetings
Tuesday, September 5, 2023 6:30 p.m.	<ul style="list-style-type: none">• Board of Directors' Regular Bi-Monthly Meeting with Closed Session prior to 6:30 p.m. start time
Friday, September 15, 2023 9:30 a.m.	<ul style="list-style-type: none">• Operations Committee Meeting/Special Meeting of the Board of Directors

Upcoming Key Items for future Finance & Administration Committee Meetings

- At September 28, 2023 Finance & Administration Committee Meeting
 - Fiscal Policy Updates


Board Secretary

*MARIN WATER BOARD OF DIRECTORS ORDER OF ROLL CALL: RANJIV KHUSH, LARRY RUSSELL, MATT SAMSON, MONTY SCHMITT, AND JED SMITH



Item Number: 01
Meeting Date: 08-24-2023
Meeting: Finance & Administration Committee/
Board of Directors (Finance & Administration)

Approval Item

TITLE

Minutes of the Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) of May 25, 2023 and June 22, 2023

RECOMMENDATION

Approve the minutes of both meetings

SUMMARY

The Finance & Administration Committee/Board of Directors (Finance & Administration) held their meetings on May 25th and June 22nd. The minutes of both meeting are attached.

DISCUSSION

None

FISCAL IMPACT

None

ATTACHMENT(S)

1. Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) Minutes of May 25, 2023
2. Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) Minutes of June 22, 2023

DEPARTMENT OR DIVISION	DIVISION MANAGER	APPROVED
Communications & Public Affairs Department	 Terrie Gillen Board Secretary	 Ben Horenstein General Manager

**MARIN MUNICIPAL WATER DISTRICT
FINANCE & ADMINISTRATION COMMITTEE MEETING/
SPECIAL MEETING OF THE BOARD OF DIRECTORS (FINANCE & ADMINISTRATION)**

MINUTES

Thursday, May 25, 2023

Held Remotely and In-Person at:

Open Session Location: Marin Water Board Room, 220 Nellen Avenue, Corte Madera, CA 94925

Closed Session Location: Marin Water, Mt. Tam Conference Room, 220 Nellen Avenue, Corte Madera, CA 94925

CALL TO ORDER AND ROLL CALL:

Chair Jed Smith called the meeting to order at 8:30 a.m.

Directors Present: Ranjiv Khush, Larry Russell, Matt Samson, Monty Schmitt, and Jed Smith (Director Russell arrived at 8:32 a.m.)

Directors Absent: None

ADOPT AGENDA:

On motion made by Vice Chair Schmitt and seconded by Director Samson, the board approved the adoption of the agenda. The following roll call vote was made.

Ayes: Directors Khush, Samson, Schmitt, and Smith

Noes: None

Absent: Director Russell

There were no public comments.

PUBLIC COMMENT - ONLY ON ITEM 1:

There were no public comments.

CONVENE TO CLOSED SESSION

The board convened to closed session at 8:31 a.m. and went to the Mt. Tam Conference Room. Director Russell arrived at 8:32 a.m.

CLOSED SESSION ITEM

1. Conference with Labor Negotiator

(Government Code §54957.6)

Agency Designated Representative: Ben Horenstein, General Manager

Employee Organizations: Service Employees International Union, Local 1021;
Unrepresented Employees

RECONVENE TO OPEN SESSION

The Board reconvened in the Board Room at 9:32 a.m.

CLOSED SESSION REPORT OUT

Chair Smith reported that the Closed Session adjourned at 9:30 a.m. with no reportable action.

PUBLIC COMMENT - ITEMS NOT ON THE AGENDA

There were no public comments.

CALENDAR ITEMS:

Item 1 Minutes of the Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) of April 27, 2023

On motion made by Director Khush and seconded by Director Samson, the committee approved the minutes. The following roll call vote was made.

Ayes: Directors Khush, Russell, Samson, Schmitt, and Smith

Noes: None

There were no public comments.

Item 2 Human Resources Update

Human Resources Manager Vikkie Garay presented this item. There was discussion throughout the presentation.

There were no public comments.

This was an informational item. The Board did not take any formal action.

Item 3 Monthly Financial Update – April 2023

Finance Director Bret Uppendahl presented this item of the District’s current monthly financial status. Discussion on this item between the board and staff occurred during and after the presentation.

There was one public comment.

This was an informational item. The Board did not take any formal action.

Item 4 Quarterly Investment Report – March 2023

Finance Director Uppendahl also presented this report. Discussion followed.

There were no public comments.

This was an informational item. The Board did not take any formal action.

ADJOURNMENT

There being no further business, the Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) adjourned at 10:18 a.m.

Board Secretary

**MARIN MUNICIPAL WATER DISTRICT
FINANCE & ADMINISTRATION COMMITTEE MEETING/
SPECIAL MEETING OF THE BOARD OF DIRECTORS (FINANCE & ADMINISTRATION)**

MINUTES

Thursday, June 22, 2023

Held Remotely and In-Person at:

Locations: Marin Water, Board Room, 220 Nellen Avenue, Corte Madera, CA 94925, and 103 Herring Pond Road, Plymouth, MA 02360

CALL TO ORDER AND ROLL CALL:

Chair Jed Smith called the meeting to order at 9:30 a.m.

Directors Present: Ranjiv Khush, Larry Russell, and Jed Smith

Directors Absent: Matt Samson and Monty Schmitt
(Vice Chair Schmitt arrived at 9:31 a.m.)

ADOPT AGENDA:

On motion made by Chair Smith and seconded by Director Khush, the board approved the adoption of the agenda with the removal of Item 4 (Budget). The following roll call vote was made.

Ayes: Directors Khush, Russell, Schmitt, and Smith
Noes: None
Absent: Director Samson

There were no public comments.

PUBLIC COMMENT - ONLY ON ITEMS NOT ON THE AGENDA:

There were no public comments.

CALENDAR ITEMS:

Item 1 Fiscal Year 2023/24 Annual Insurance Renewal

Finance Director Bret Uppendahl introduced this item, as well as Alliant Senior Vice President Matt McManus and Senior Vice President Seth Cole, who presented this item. There was discussion between the board, consultants, and staff throughout the presentation.

There were no public comments.

On motion made by Director Khush and seconded by Vice Chair Schmitt, this item was referred to the board for consideration at a future board meeting.

Item 2 Annual Review of Policy No. 33 Investment Policy

Finance Director Uppendahl presented this item. Discussion followed

There were no public comments.

This was an informational item. The Board did not take any formal action.

Item 3 Monthly Financial Update – May 2023

The Finance Director also presented this item.

There were no board comments nor public comments.

This was an informational item. The Board did not take any formal action.

Item 4 Adoption of the Proposed Fiscal Year 2023/24 and Fiscal Year

This item was removed during the adoption of the agenda, because the budget was approved at the Board of Directors' Regular Bi-Monthly Meeting of June 20, 2023.

ADJOURNMENT

There being no further business, the Finance & Administration Committee Meeting/Special Meeting of the Board of Directors (Finance & Administration) adjourned at 10:27 a.m.

Board Secretary



Item Number: 02
Meeting Date: 08-24-2023
Meeting: Finance &
Administration Committee /
Board of Directors (Finance &
Administration)

Informational Item

TO: Finance & Administration Committee/Board of Directors (Finance & Administration)

FROM: Bret Uppendahl, Finance Director *BU*

THROUGH: Ben Horenstein, General Manager *BH*

DIVISION NAME: Administrative Services Division

ITEM: Monthly Financial Update – July 2023

SUMMARY

The Monthly Financial Update provides an overview of the fiscal year-to-date financials, and this month's report includes additional information related to year-end FY 2022-23 results. Staff is continuing to finalize accounting transactions for the prior year and therefore final results for FY 2022-23 will not be available until October. Variable water sales, which are a key indicator of the District's fiscal position, ended the prior year approximately 20 percent below budget, representing an \$11.9 million shortfall.

DISCUSSION

Water Consumption

Attached are preliminary year-end summaries of water sales and consumption for FY 2022-23 and initial consumption data for FY 2023-24. In the first six months of FY 2022-23, the District experienced a 9 percent increase in water consumption compared to the prior year. However, during the final six months of FY 2022-23, customer demand was 9 percent lower than the prior year. The net result was a year-over-year consumption increase of 0.9%.

Billing data for July 2023, which reflects consumption activity for May and June, was slightly higher than July 2022, but 4 percent below budgeted consumption levels for 2023. It should be noted that the District's bi-monthly billing practice is not evenly split between the two months, with the July billing cycle accounting for approximately 40% of the District's total water consumption. More information will be available in coming months, when the District has data from a full billing cycle and summer demand patterns are incorporated.

Retiree Liabilities

CalPERS recently announced a preliminary investment return of 5.8% for the FY 2022-23 fiscal year. The assumed annual rate of return is 6.8%, meaning that the investment returns fell short of expectations and all employers will see increases in mandatory annual contributions to unfunded actuarial liabilities (UAL) in future years.

The District's required contribution rates are determined annually by CalPERS actuarial valuations. However, the actuarial valuations are typically on a one-year lag for investment returns, and an additional one-year lag for contribution requirements. According to the most recent actuarial valuation, the District's funded ratio decreased from 71% in 2021 to 62% in 2022. The reduction in funded status reflects the 2022 CalPERS investment loss of 6.1%. Over the past 10 years, CalPERS reports that annualized returns have been 7.1%.

FISCAL IMPACT

None

ATTACHMENT(S)

1. Total Water Sales and Fixed Charges & Fees FY 2022/23
2. Billed Water Consumption in AF FY 2013/14 to FY 2023/24

Total Water Sales and Fixed Charges & Fees
Fiscal Years 2021/22 - 2022/23
As of June: 100% of FY*

Month	Fixed Charges											
	Water Sales			Service Charges			Watershed Fee			Total Water Sales and Fixed Charges		
	21/22 Actual	22/23 Budget	22/23 Actual	21/22 Actual	22/23 Budget	22/23 Actual	21/22 Actual	22/23 Budget	22/23 Actual	21/22 Actual	22/23 Budget	22/23 Actual
July	3,893,617	4,948,239	4,004,486	1,432,518	1,531,262	1,491,919	332,621	353,462	347,285	5,658,756	6,832,962	5,843,690
August	5,886,691	7,946,782	6,238,037	2,074,186	2,217,160	2,022,350	455,201	483,723	442,367	8,416,079	10,647,665	8,702,754
September	4,294,155	5,798,487	5,301,598	1,481,820	1,583,962	1,722,033	342,629	364,097	396,510	6,118,604	7,746,546	7,420,141
October	5,453,392	7,767,333	6,612,557	2,192,958	2,344,119	2,267,637	477,901	507,845	494,747	8,124,251	10,619,297	9,374,941
November	2,677,846	4,666,597	3,463,774	1,486,790	1,589,274	1,552,383	346,372	368,075	361,370	4,511,008	6,623,946	5,377,527
December	3,552,122	5,657,127	4,698,697	2,031,521	2,171,553	2,271,365	441,494	469,157	495,229	6,025,136	8,297,837	7,465,290
January	1,664,573	2,573,704	2,327,071	1,135,794	1,214,085	1,560,906	255,662	271,681	362,582	3,056,029	4,059,470	4,250,559
February	3,880,028	4,131,394	3,453,451	2,641,800	2,823,900	2,257,119	593,654	630,851	495,426	7,115,482	7,586,145	6,205,995
March	2,285,758	2,508,805	1,909,749	1,539,758	1,645,893	1,570,868	355,428	377,699	362,955	4,180,944	4,532,397	3,843,572
April	4,289,931	4,791,568	3,332,133	2,160,928	2,309,881	2,255,344	473,692	503,373	492,476	6,924,551	7,604,822	6,079,953
May	2,973,096	3,476,035	2,446,448	1,509,254	1,613,287	1,575,876	348,806	370,662	365,751	4,831,157	5,459,984	4,388,076
June	5,266,386	6,615,188	5,118,623	2,186,861	2,337,601	2,282,061	476,966	506,852	497,235	7,930,213	9,459,641	7,897,920
TOTAL	\$ 46,117,595	\$ 60,881,258	\$ 48,906,624	\$ 21,874,190	\$ 23,381,979	\$ 22,829,861	\$ 4,900,426	\$ 5,207,474	\$ 5,113,933	\$ 72,892,211	\$ 89,470,711	\$ 76,850,418

Monthly Budget to Actual:	80%	Monthly Budget to Actual:	98%	Monthly Budget to Actual:	98%	Monthly Budget to Actual:	86%
% of Annual Budget:	80%	% of Annual Budget:	98%	% of Annual Budget:	98%	% of total budget received:	86%
Actual to Actual (thru June):	106%	Actual to Actual (thru June):	104%	Actual to Actual (thru June):	104%	Actual to Actual (thru June):	105%

*Does not reflect year-end accruals

**Billed Water Consumption In AF
Fiscal Year 2013/14 - 2023/24**

Month	13/14 Actual	14/15 Actual	15/16 Actual	16/17 Actual	17/18 Actual	18/19 Actual	19/20 Actual	2021 Actual	21/22 Actual	22/23 Actual	23/24 Budget	23/24 Actual	Monthly Budget Variance	Actual to Actual % Change
July	2,205	1,969	1,628	1,876	1,931	1,975	1,834	2,022	1,642	1,562	1,748	1,674	-4.21%	7.22%
August	3,407	3,186	2,620	3,012	3,206	3,245	3,112	3,215	2,500	2,476	2,715			
September	2,244	1,973	1,775	1,939	2,027	2,145	2,112	2,205	1,604	1,881	1,901			
October	3,215	2,778	2,583	2,767	3,140	2,951	3,058	3,124	2,293	2,498	2,614			
November	1,931	1,454	1,490	1,340	1,705	1,664	1,837	1,882	1,153	1,329	1,354			
December	2,433	1,984	1,935	1,646	1,914	2,169	2,295	2,418	1,439	1,795	1,764			
January	1,342	1,065	991	910	942	993	1,186	1,157	735	984	938			
February	1,996	1,651	1,450	1,392	1,754	1,525	1,556	1,625	1,646	1,385	1,653			
March	1,042	1,048	832	846	992	879	1,105	970	948	830	970			
April	1,627	1,910	1,467	1,375	1,612	1,427	1,883	1,775	1,717	1,377	1,688			
May	1,308	1,379	1,067	1,092	1,240	1,224	1,378	1,459	1,209	1,044	1,229			
June	2,642	2,344	2,478	2,416	2,516	2,349	2,711	2,559	2,217	2,119	2,366			

TOTAL 25,390 22,742 20,316 20,611 22,978 22,546 24,065 24,410 19,104 19,279 20,941 1,674

Change from prior year: -10.43% -10.67% 1.45% 11.49% -1.88% 6.74% 1.43% -21.74% 0.92%

Budget-to-Actual Basis -4.21%
Actual-to-Actual Basis 7.22%
% of Total Budget 8.00%



Item Number: 03
Meeting Date: 08-24-2023
Meeting: Finance &
Administration Committee /
Board of Directors (Finance &
Administration)

Informational Item

TO: Finance & Administration Committee/Board of Directors (Finance & Administration)

FROM: Bret Uppendahl, Finance Director *BU*

THROUGH: Ben Horenstein, General Manager *BH*

DIVISION NAME: Administrative Services Division

ITEM: Quarterly Investment Report – June 2023

SUMMARY

Pursuant to District Investment Policy No. 33, the quarterly investment report is submitted to the Board for the quarter ending June 30, 2023.

The District's investment portfolio (pooled cash) carried a market value of \$67.5 million as of the end of June. The investments held included \$62.6 million on deposit in the Local Agency Investment Fund (LAIF), \$0.7 million on deposit in the Fidelity Government Money Market Fund, and \$4.1 million in the District's general checking account. Fiscal year to date interest earned as of June on the District's portfolio totaled \$1,372,090. The average monthly effective yield for LAIF investments in June 2023 was 3.17 percent, which represents a significant increase compared to 0.37 percent average effective yield for the Fiscal Year 2022. The increased yield is largely driven by increased interest rates for US Treasuries as they comprise over 65 percent of the LAIF portfolio.

Pursuant to provision (2) of California Government Code section 53646, the District portfolio complies with the District's investment policy. Pursuant to provision (3) of California Government code section 53646, the District establishes that it is able to meet its pooled expenditure requirements for the next six months.

ATTACHMENT(S)

1. Schedule of Investments and Yield Curve as of June 30, 2023



MARIN MUNICIPAL WATER DISTRICT

BOARD POLICY No. 33

DATE: Reviewed 1-6-10
Revised 1-5-11
Revised 1-5-12
Revised 1-23-13
Revised 2-7-17
Revised 1-25-18
Reviewed 3-13-19
Revised 1-21-20
Revised 3-02-21

SUBJECT: INVESTMENT POLICY

I. Introduction

The purpose of this document is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy and to organize and formalize investment-related activities.

The investment policies and practices of the Marin Municipal Water District ("District") are based on State law and prudent money management. All funds will be invested in accordance with the District's Investment Policy and the authority governing investments for local agencies as set forth in the California Government Code, §53601 through §53659.

II. Scope

It is intended that this policy cover all funds and investment activities of the District, except investments governed by employment retirement funds and bond documents. The provisions of relevant bond documents will restrict the investment of bond proceeds.

III. Prudence

Investments shall be made with judgment and care - under circumstances then prevailing - which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. All persons investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds shall act with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the District.

IV. Objectives

The primary objectives, in priority order, of the District's investment activities shall be:

1. **Safety.** Safety of principal is the foremost objective of the investment program. The District's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The District shall seek to preserve principal by mitigating the two types of risk: credit risk and market risk.
2. **Liquidity.** The District's investment portfolio will remain sufficiently liquid to enable the District to meet its cash flow requirements.
3. **Return on Investment.** The District's investment portfolio shall be designed with the objective of attaining a market rate of return on its investments consistent with the constraints imposed by its safety objective and cash flow considerations.
4. **Public Trust.** All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

It is the District's intent at time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars.

V. Delegation of Authority

The management and oversight responsibility for the investment program is hereby delegated to the Finance Director (Administrative Services Division)/Treasurer who shall monitor and review all investments for consistency with this investment policy. This delegation of authority shall remain in place until revoked by the Board of Directors. The Finance Director/Treasurer may delegate the day-to-day operations of investing to his/her designee(s), but not the responsibility for the overall investment program. No person may engage in an investment transaction except as provided under the limits of this policy.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions.

VII. Selection of Financial Institutions and Broker/Dealers

The Finance Director/Treasurer shall maintain a list of authorized broker/dealers and financial institutions which are approved for investment purposes in the State of California, and who have proof of National Association of Security Dealers certification. It shall be the policy of the District to purchase securities only from authorized institutions or firms. All authorized firms must also provide certification that they have received and read the District's Investment Policy.

VIII. Permitted Investment Instruments

1. Direct obligations for which the full faith and credit of the United States Government is pledged for the payment of principal and interest.
2. Obligations issued by Agencies or Instrumentalities of the United States Government.
3. Repurchase Agreements used solely as short-term investments not to exceed 90 days.
 - a. The following collateral restrictions will be observed: Only United States Treasury securities or Federal Agency securities will be acceptable collateral. All securities underlying Repurchase Agreements must be delivered to the District's custodian bank vs. payment. The market value of securities that underlay a Repurchase Agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be reviewed on a regular basis and adjusted no less than quarterly. Collateral shall not include strips, zero-coupon instruments or instruments with maturities in excess of five years. The right of substitution will be granted, provided that permissible collateral is maintained.
4. Banker's Acceptances issued by domestic or foreign banks, which are eligible for purchase by the Federal Reserve System, the short-term paper of which is rated in the highest category by Moody's Investors Services or by Standard & Poor's Corporation.
 - a. Purchases of Banker's Acceptances may not exceed 180 days maturity or 40 percent of the District's surplus money. However, no more than 30% or \$2,000,000 of the District's surplus funds, whichever is less, may be invested in the Banker's Acceptance of any one commercial bank.

5. Commercial paper issued by an entity meeting the following conditions in Option 1 or Option 2 below:

Option 1:

1. Is organized and operating in the United States as a general corporation and has total assets in excess of \$500 million.
2. Has debt other than commercial paper, if any, that is rated “A” or higher by a nationally recognized rating agency.

Option 2:

1. Is organized within the United States as a special purpose corporation, trust or limited liability company.
 2. Has program-wide credit enhancements including, but not limited to, over-collateralization, letters of credit or surety bond.
 3. Has commercial paper that is rated “A-1” or higher by a nationally recognized rating agency.
- a. Purchases of eligible commercial paper may not exceed 270 days to maturity nor represent more than 10 percent or \$1,000,000 from an issuing corporation, whichever is less.
 - b. Purchases of commercial paper may not exceed 15 percent of the District's surplus money that may be invested.
6. Medium term corporate notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium term corporate notes shall, at the time the note is purchased, be rated as follows:
 - a.

1 year or less	A rating by two major rating agencies
1 - 2 years	AA rating by at least one major rating agency
2 - 4 years	AA rating by two major rating agencies
4 - 5 years	AAA rating by two major rating agencies
 - b. Investments will be limited to a maximum of 30 percent of the District's portfolio.

7. Federal Deposit Insurance Company (FDIC) insured or fully collateralized time certificates of deposit in financial institutions located in California, including United States branches of foreign banks licensed to do business in California. The maximum maturity of a time deposit shall not exceed 180 days. All time deposits must be collateralized in accordance with California Government Code §53651 and §53652, either at 150 percent by promissory notes secured by first mortgages and first trust deeds upon improved residential property in California eligible under Section 53651(m) or 110 percent by eligible marketable securities listed in subsections (a) through (l), (n) and (o) of §53651, or 105% of letters of credit issued by the Federal Home Loan Bank of San Francisco per subsection (p) of §53651.
8. Negotiable certificates of deposit or deposit notes issued by a nationally or State chartered bank or a State or Federal savings and loan association or by a Federally licensed or State licensed branch of a foreign bank; provided that the senior debt obligations of the issuing institution are rated "AA" or better by Moody's or Standard & Poor's.
 - a. Purchase of negotiable certificates of deposit may not exceed 20 percent of the District's surplus money.
9. State of California's Local Agency Investment Fund. Investment in LAIF may not exceed \$75 million per account.
10. Shares of beneficial interest issued by diversified management companies (Money Market Mutual Funds) investing in the securities and obligations authorized by sections (a) through (l) of California Government Code §53601. To be eligible for investment pursuant to this subdivision these companies shall either: (1) attain the highest ranking letter or numerical rating provided by not less than two of the three largest nationally recognized rating services; or (2) have an investment advisor registered with the Securities and Exchange Commission with not less than five years experience investing in securities and obligations authorized by California Government Code §53601 and with assets under management in excess of \$500,000,000.

The purchase price of shares shall not exceed 10 percent of the District's surplus money and no more than 10 percent invested in shares of any one mutual fund.
11. Registered state warrants or treasury notes or bonds of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency, or authority of California.

12. Bonds, notes or warrants or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the by the local agency, or by a department, board, agency, or authority of the local agency of California.

The following summary of maximum percentage limits, by instrument, are established for the District's total investment portfolio:

<u>Investment Type</u>	<u>Percentage</u>
Repurchase Agreements.....	0 to 10%
Local Agency Investment Fund	\$65,000,000 per account
U.S. Treasury Bonds/Notes/Bills	0 to 100%
U.S. Government Agency Obligations	0 to 100%
Banker's Acceptances	0 to 40%
Commercial Paper.....	0 to 15%
Negotiable Certificates of Deposit	0 to 20%
Time Certificates of Deposit	0 to 20%
Medium Term Corporate Notes	0 to 30%
Registered State Warrants or Local Agency Indebtedness	0 to 20%

IX. Safekeeping of Securities and Internal Controls

To protect against fraud, embezzlement or losses caused by collapse of an individual securities dealer, all securities owned by the District shall be held by an independent third party safekeeping institution, acting as agent for the District under the terms of a custody agreement or PSA agreement (repurchase agreement collateral). All trades executed by a dealer will settle on a delivery vs. payment ("DVP") basis to ensure that securities are deposited in the District safekeeping institution prior to the release of funds.

The safekeeping institution shall annually provide a copy of its most recent report on internal controls – Service Organization Control Reports (formerly 70, or SAS 70) prepared in accordance with the Statement on Standards for Attestation Engagements (SSAE) No. 16 (effective June 15, 2011).

Securities held in custody for the District shall be monitored by the Finance Director/Treasurer to verify investment holdings.

Management shall establish a system of internal controls, which shall be documented in writing and reviewed with the independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the District.

X. Maximum Maturity

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled to permit the District to meet all projected obligations.

The maximum maturity will not exceed five years.

XI. Ineligible Investments

Security types which are prohibited include, but are not limited to:

- (a) "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- (b) Interest only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.
- (c) Reverse Repurchase Agreements.

XII. Portfolio Adjustments

Portfolio percentage limitations for each investment category are applicable only at the date of purchase. Should an investment percentage limitation be exceeded due to an incident such as a fluctuation in portfolio size, the Finance Director/Treasurer is not required to sell the affected securities.

Should a security held in the portfolio be downgraded below the minimum criteria included in this Investment Policy, a determination will be made by the Finance Director/Treasurer whether to sell the investment. Any sale of an investment due to a downgrade will be done in a manner to minimize losses on sale of such

If a security is downgraded to a level that is less than investment grade (rating less than Ba1 or BB+), the Finance Director/Treasurer shall sell such affected security immediately. If the immediate liquidation of the security is not in the best interest of the District, the Finance Director/Treasurer, in consultation with an ad hoc committee made up of the General Manager and the Finance Committee President, may dispose of the security in an orderly and prudent manner considering the circumstances, under terms and conditions approved by the ad hoc committee.

The description and amounts of any securities downgraded below the District investment criteria are to be included in the quarterly investment report.

XIII. Reporting Requirements

The Finance Director/Treasurer shall render to the District Board a quarterly investment report as per California Government Code §53646, which shall include, at a minimum the following information for each individual investment:

Type of investment instrument (i.e., Treasury Bill, medium term note)

- Issuer name (i.e., General Electric)
- Purchase date (settlement date)
- Maturity date
- Par value
- Purchase price
- Current market value and the source of the valuation (quarterly)
- Overall portfolio yield based on cost

The quarterly report also shall (i) state compliance of the portfolio to the statement of investment policy, or manner in which the portfolio is not in compliance, (ii) include a description of any of the District's funds, investments or programs that are under the management of contracted parties, including lending programs, (iii) description of investments downgraded below the District's investment criteria or below investment grade and hold or sell status and (iv) include a statement denoting the ability of the District to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available.

This quarterly report shall be submitted within 30 days following the end of the quarter.

The Finance Director/Treasurer shall annually render to the Board a statement of investment policy, which the Board shall consider at a public meeting.

GLOSSARY OF TERMS

Bankers Acceptances. Are negotiable time drafts or bills of exchange drawn on and accepted by a commercial bank. Acceptance of the draft obligates the bank to pay the bearer the face amount of the draft at maturity. In addition to the guarantee by the accepting bank, the transaction is identified with a specific commodity. The sale of the underlying goods will generate the funds necessary to liquidate the indebtedness. Banker's Acceptances are usually created to finance the import and export of goods, the shipment of goods within the United States and the storage of readily marketable staple commodities. Banker's Acceptances are sold at a discount from par and the amount and maturity date are fixed. Bankers Acceptances have the backing of both the bank and the pledged commodities with no known principal loss in over 70 years. State law permits agencies to invest 40 percent of a portfolio and 30 percent with a single issuer in Bankers' Acceptances with a maximum maturity of 180 days.

Certificate of Deposit. A deposit insured up to \$250,000 by the FDIC, or collateralized at a minimum of 110 percent by the financial institution if over \$250,000, at a set rate for a specified period of time.

Collateral. Securities, evidence of deposit or pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposit of public moneys.

Corporate Medium Term Notes. Are unsecured promissory notes issued by corporations operating within the United States. The notes are in the one-to-five year maturity range. Notes must have at least an "A" rating by a nationally recognized rating service. State law permits agencies to invest 30 percent of the total portfolio and 10 percent with a single issuer in corporate medium term notes with a maximum maturity of 5 years.

Commercial Paper. Is an unsecured promissory note of industrial corporations, utilities and bank holding companies having assets in excess of \$500 million and an "A" or higher rating for the issuer's debentures. Interest is discounted from par and calculated using the actual number of days on a 360-day year. The notes are in bearer form, mature from one to 180 days and generally start at \$100,000. There is a secondary market for commercial paper and an investor may sell them prior to maturity. Commercial paper is backed by unused lines of credit from major banks. State Code permits agencies to invest 25 percent and 10 percent with a single issuer in commercial paper with a maximum maturity of 270 days.

Credit Risk. Defined, as the risk of loss due to failure of the issuer of a security shall be mitigated by investing in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer does not unduly harm the District's capital base and cash flow.

Current Yield. The interest paid on an investment expressed as a percentage of the current price of the security.

Custody. A banking service that provides safekeeping for the individual securities in a customer's investment portfolio under a written agreement which also calls for the bank to collect and pay out income, to buy, sell, receive and deliver securities when ordered to do so by the principal.

Delivery vs. Payment (DVP). Delivery of securities with a simultaneous exchange of money for the securities.

Fannie Mae. Trade name for the Federal National Mortgage Association (FNMA), a United States sponsored corporation.

Federal Reserve System. The central bank of the United States which consists of a seven member Board of Governors, 12 regional banks and 5,700 commercial banks that are members.

Federal Deposit Insurance Corporation (FDIC). Insurance provided to customers of a subscribing bank that guarantees deposits to a set limit (currently \$250,000) per account.

Freddie Mac. Trade name for the Federal Home Loan Mortgage Corporation (FHLMC), a United States sponsored corporation.

Ginnie Mae. Trade name for the Government National Mortgage Association (GNMA), a direct obligation bearing the full faith and credit of the United States Government.

Interest Rate. The annual yield earned on an investment, expressed as a percentage.

Liquidity. Refers to the ability to rapidly convert an investment into cash.

Local Agency Investment Fund (LAIF) Demand Deposit. Established by the State to enable financial managers to place idle funds in a pool for investment. Each agency is currently limited by LAIF to an investment of \$50 million plus any bond proceeds.

Market Risk. Defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by limiting the maximum maturity of any one security to five years, structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity and avoiding the purchase of long-term securities for the sole purpose of short-term speculation.

Market Value. The price at which a security is trading and could presumably be purchased or sold.

Maturity. The date upon which the principal or stated value of an investment becomes due and payable.

Portfolio. Collection of securities held by an investor.

Purchase Date. The date in which a security is purchased for settlement on that or a later date.

Rate of Return. The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (REPO). Contractual arrangement between a financial institution or dealer and an investor. The investor puts up their funds for a certain number of days at a stated yield. In return, they take title to a given block of securities as collateral. At maturity, the securities are repurchased and the funds are repaid with interest.

Reverse Repurchase Agreement (Reverse REPO). A transaction where the seller (District) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

Sallie Mae. Trade name for the Student Loan Marketing Association (SLMA), a United States sponsored corporation.

Treasury Bills (T-Bills). United States Treasury Bills which are short-term, direct obligations of the United States Government issued with original maturities of 13 weeks, 26 weeks and 52 weeks; sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Issued in book entry form only. T-bills are sold on a discount basis.

United States Government Agencies. Instruments issued by various United States Government Agencies most of which are secured only by the credit worthiness of the particular agency.



Item Number: 04
Meeting Date: 08-24-2023
Meeting: Finance &
Administration Committee/
Board of Directors (Finance &
Administration)

Informational Item

TO: Finance & Administration Committee/Board of Directors (Finance & Administration)

FROM: Bret Uppendahl, Finance Director *BU*

THROUGH: Ben Horenstein, General Manager *BH*

DIVISION NAME: Administrative Services Division

ITEM: Financial Policy Review

SUMMARY

Effective financial management is a multi-faceted endeavor that requires long term discipline and an ongoing commitment from all areas of an organization. Financial policies are a foundational element to sound financial management and the District's current financial policies are incorporated in the broader Board Policies document, which is published on the District Website.

It is a best practice to review and update financial policies on a regular basis. This not only helps ensure that policy language reflects the current legal and regulatory environment, but it also provides the opportunity to continuously refine the District's strategic intent as priorities evolve. When reviewing and updating fiscal policies, the District will incorporate industry guidance, which often comes from a variety of sources, as well as our regional peers. The Government Finance Officers Association (GFOA), which provides training and policy guidance to local governments, publishes a variety of 'best practice' documents for all aspects of financial management. While the GFOA provides useful policy guidance for local governments, it is also beneficial to reference industry-specific guidance such as the American Water Works Association (AWWA). In the area of fiscal management, the AWWA provides guidance on rate setting, infrastructure planning and reserve policies. Staff also relies on other similar organizations such as the California Special Districts Association (CSDA), the International City/County Management Association (ICMA) and the Water Environment Federation (WEF) for guidance in certain areas.

Over the next few months, staff will provide information to the Finance and Administration Committee on various fiscal policies and will recommend changes where appropriate. The focus

of today’s report is to provide an overall context for the District’s financial management policies and to begin the discussion on reserve targets as outlined in Board Policy #46.

DISCUSSION

With regard to financial management, the most pertinent current Board Policies include:

- Board Policy #33: Investment Policy
 - Defines acceptable investment vehicles and mandatory reporting practices
- Board Policy #45: Rate Review
 - Requires periodic review of water rates, fees and charges
- Board Policy #46: Reserve Policy
 - Defines reserve targets for various accounts
- Board Policy #51: Debt Management
 - Places limits on debt issuance for capital projects

Certain elements of the Reserve Policy and Debt Management policy are linked to metrics in the District’s annual budget. For reference, the District’s FY 2024 budget is \$142 million, including capital funds and reserve contributions. Of this amount, approximately \$104 million (or 73%) is for ongoing operations and debt service, and \$33 million (or 23%) is for capital projects. An additional \$5 million is allocated for contributions to reserves.

The purpose of Board Policy #46 is to establish minimum reserve levels to be maintained by the District. Reserve levels are to be reviewed annually and at the time of adopting the two year budget. Within the current policy, six distinct funds have been established. The District’s current reserve policies for each fund are summarized in the table below:

Reserve Fund	Current Language	Prescribed Balance
Insurance Reserve Fund	6 times self-retention	\$ 18,600,000
Workers Compensation Reserve Fund	Set by Actuary	\$ 6,500,000
Capital Reserve Fund	Annual CIP Budget	\$ 34,000,000
Unrestricted Reserve Fund	6 months annual operating budget	\$ 52,000,000
Rate Stabilization Fund	Accumulate reserves to be used in debt coverage ratio calculations, no target balance	\$ -
Water Supply Project Fund	\$2.5m annual contribution, no target balance	n/a
Total Reserve Balance Per Current Policy		\$ 111,100,000

As shown in the table above, the District's current reserve policy would result in a reserve balance of \$111.1 million. During the 2023 rate setting process, staff provided information regarding reserve targets and noted that our current balances are below the levels outlined in the Board policy. This is due, in part, to planned use of reserves during the recent drought. It is also due to recent changes in the District's budget and rate structure that may necessitate revisions to the language in the Board's Reserve Policy.

During the rate setting process, staff also noted that while industry guidelines are useful for developing sound fiscal policies, each local government entity should still apply agency specific factors when developing reserve policy targets. In general, reserve targets should be sufficient to mitigate revenue fluctuations within a rate cycle and to provide funding for unforeseen expenditures. Reserves can also be used to provide funding for strategic or accelerated infrastructure investments and to minimize the volatility of future rate increases. Finally, reserve balances are a critical component of an agency's credit rating, which directly impacts the long term cost of debt-funded infrastructure investments.

FISCAL IMPACT

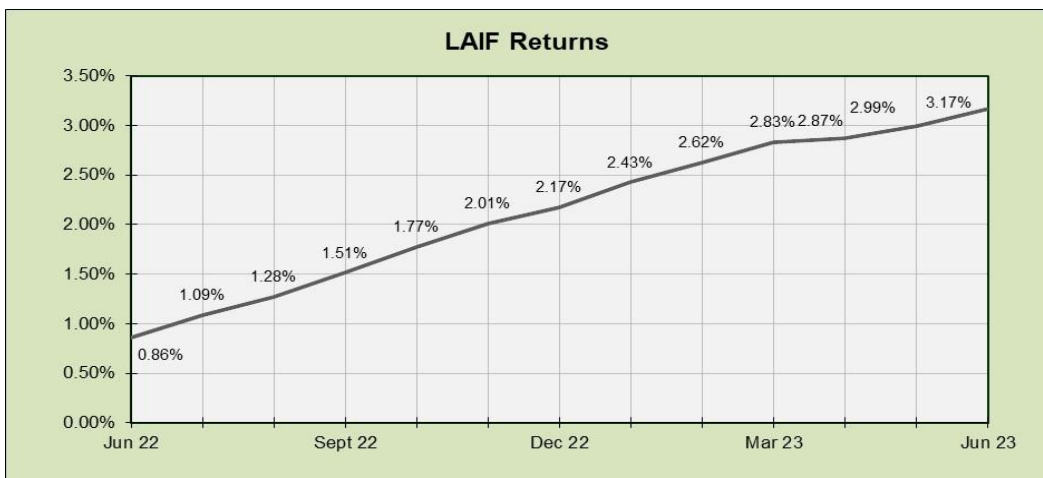
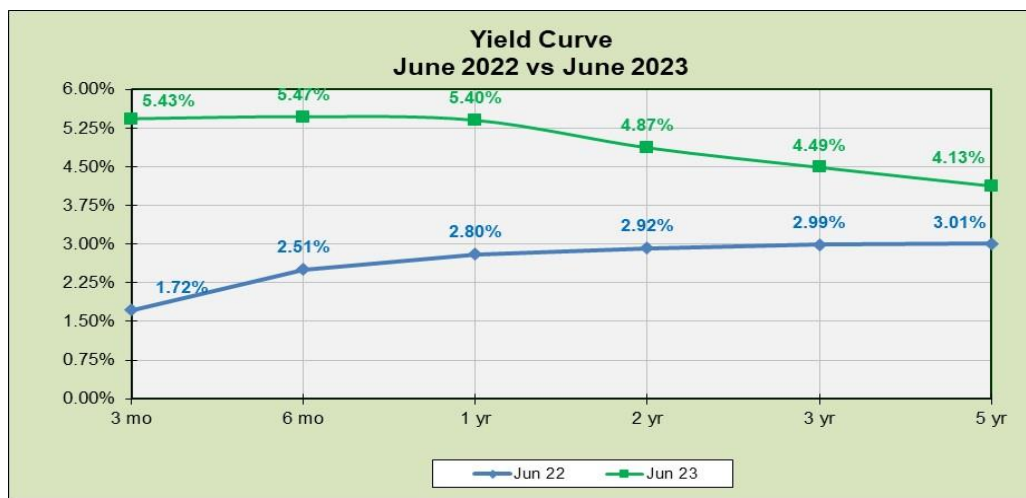
None

ATTACHMENT(S)

1. Board Policy # 33: Investment Policy
2. Board Policy # 45: Rate Review
3. Board Policy # 46: Reserve Policy
4. Board Policy # 33: Debt Management

**Marin Municipal Water District
FY 2023 Schedule of Investments
As of June 30, 2023**

	Beginning Balance	Purchases / Deposits	Investment Income/(Loss)	Withdrawals	Ending Balance
DISTRICT INVESTMENTS:					
Local Agency Investment Fund	63,296,607	14,000,000	1,341,701	(16,000,000)	62,638,308
Fidelity Gov't Money Market Fund	678,096	307	22,639		701,042
Corporate Obligations	4,000		(1,693)	(307)	2,000
US Bank Checking Account	3,575,908	126,657,822	9,443	(126,119,937)	4,123,235
TOTAL INVESTMENTS	67,554,611	140,658,129	1,372,090	(142,120,244)	67,464,585





MARIN MUNICIPAL WATER DISTRICT

Item Number: 04

Attachment: 02

BOARD POLICY

No.: 45

DATE: 1-17-07

SUBJECT: RATE REVIEW POLICY

Introduction

The purpose of this document is to establish a consistent policy for regularly reviewing water rates charged by the District.

Scope

It is intended that this policy cover all rates, fees, and charges for the sale of potable, raw, and reclaimed water sales made by the District in the normal course of business.

General

The Board recognizes the need and benefit of regularly and routinely reviewing the rates, fees and charges for the sale of potable, raw, and reclaimed water made by the District in the normal course of business. This policy is established to set the minimum timeframe between those reviews.

Policy

The Board of Directors of the Marin Municipal Water District shall review the rates, fees, and charges for the sale of potable, raw, and reclaimed water made by the District in the normal course of business with the adoption of each two-year preliminary or proposed operating and/or capital budget. This shall be the minimum review period. Said rates, fees, and charges may also be reviewed at anytime a majority of the Board members deem it necessary for the benefit of the District.



MARIN MUNICIPAL WATER DISTRICT

Item Number: 04
Attachment: 03

BOARD POLICY

No.: 46

DATE: 12/17/13

LAST REVISED: 04/04/23

SUBJECT: RESERVES

Introduction

The purpose of this document is to establish a consistent policy for establishing the minimum reserve levels to be maintained by the District.

Scope

It is intended that this policy cover all reserve funds currently or to be established and held by the District. This policy shall not pertain to reserves held for the benefit of the District by others or reserves established as the result of the borrowing money or the issuance of debt by the District.

General

The Board recognizes the need and benefit of maintaining reserves for various purposes. It is the goal of this policy to establish those reserve funds and the minimum amount to be maintained by each.

Policy

The Board of Directors of the Marin Municipal Water District shall review the level of reserves held in each fund annually and at the time of adopting the two-year preliminary or proposed operating and/or capital budget. Only those reserve funds held by the District are subject to this policy.

The Board authorizes and directs that the following reserve funds be established and further directs that the minimum amount of each reserve fund shall be, or shall be calculated to be, as follows:

- 1) Insurance Reserve Fund: This fund is established to pay exceptionally large self-insured claims. The fund shall maintain a minimum balance equivalent to six times the District's self-insured retention.

- 2) Workers Compensation Reserve Fund: This fund is established to accumulate reserves sufficient to pay current and future workers compensation claims and operating expenses. The minimum balance shall be that set by the actuary. An actuarial study shall be conducted as required by state law but no less frequently than bi-annually.
- 3) Capital Reserve Fund: This fund is established to accumulate reserves that may be used for current and future capital construction and equipment purchases. The fund shall accumulate funds from annual transfers from operating revenues, funds received from one time “windfall” revenues and revenues from the sale of capital assets. The minimum balance shall be equivalent to the annual budget for capital expenditures.
- 4) Unrestricted/Undesignated Reserve Fund: This fund is established to accumulate reserves which may be used for any purpose of the District. A minimum balance equivalent to six months of the annual operating budget shall be maintained. At the time this reserve fund is reviewed, the Board shall adopt a level of reserve desired ten years from the date of review. This level shall then be used in the rate model when setting rates, fees, and charges.
- 5) Rate Stabilization Fund: This fund is established to accumulate reserves which may be used for transfer to gross revenues to be used in the calculation of the District’s debt coverage ratio or for any other lawful purpose of the District. The Rate Stabilization Fund is increased by deposits of gross revenues made 180 days following the end of a fiscal year by Board approval.
- 6) Water Supply Project Fund: This fund is established to accumulate reserves to support water supply enhancement and resiliency projects. Beginning FY 2023-24, \$2.5 million will be transferred to the Water Supply Project Fund annually.

SUBJECT: DEBT MANAGEMENT POLICY

I. INTRODUCTION

The Marin Municipal Water District (District) Debt Management Policy sets forth debt management objectives for the District, establishes overall parameters for issuing and administering the debt portfolio, and provides policy guidelines to decision makers.

Implementation of the Debt Management Policy will help to ensure that the District maintains a sound debt position and protects its credit quality, as well as maintains compliance with California Government Code Section 8855 (i). The latter which requires any issuer of public debt to certify with the California Debt and Investment Advisory Commission (CDIC) that the issuer has adopted local debt policies concerning the use of debt and any proposed debt issuance is consistent with those policies. In addition, the District will file certain annual reports with CDIC by January 31 of each year (first report due by January 31, 2018).

II. SCOPE

The Debt Management Policy governs debt issuance and administration activities of the District as defined in this policy.

III. POLICY STATEMENT

A. Financing Methodology

The District issues debt to raise funds for capital improvements.

1. Long Term Borrowing

Long term borrowing may be used to finance the acquisition or improvement of land, facilities or equipment when it is appropriate to spread the financing over more than one 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.

2. Short Term Borrowing

Short term borrowing having a maturity of one year or less, may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs. It may be used to fund operating costs when issued and retired in the same fiscal year.

3. Debt Capacity

The District will keep outstanding debt within the practical limits of the District's debt rating, debt service coverage ratio constraints and any other applicable law. The District's policy is to limit

total debt outstanding to four times total annual operating expenses. This will limit the magnitude of fixed expenses attributable to debt.

4. Debt Service Coverage

The District shall maintain strict compliance with covenants regarding coverage of annual debt service by net revenues embodied in the terms of debt instruments. In addition, the District intends to maintain an average debt service coverage ratio of 150%. This will support strong bond credit ratings and provide annual revenues to fund capital improvements.

5. Intergenerational Concerns

The District will review debt issuance in light of the balance between funding capital improvements from current revenue and from long-term debt and the impact each debt financing has relative to intergenerational benefits.

6. Credit Quality

The District seeks to obtain and maintain the highest possible credit ratings for all categories of short and long-term debt. Except for certain instruments, the District will not incur obligations that do not carry investment grade ratings (i.e. credit ratings below Baa3/BBB-/BBB- from Moody's Investors Service, S&P Global and Fitch Ratings, respectively). However, certain instruments, such as state loans or private placements, may not be rated.

Traditionally, the District has benefited from lower interest costs due to strong ratings and shall take any necessary steps to maintain favorable ratings, with a goal of at least AA+.

Ratings may be obtained from Moody's, S&P, Fitch, or other nationally recognized rating agencies. The District will always have at least one rating and when beneficial will request additional ratings for long term obligations that are publicly sold, whereas private placements may not require ratings.

4. Method of Sale

The Board of Directors or its designee shall be responsible for determining the appropriate way to offer any securities to investors and the most effective method of sale will be decided on a case by case basis.

5. Maturity

The District shall issue debt with an average life less than or equal to the average life of the assets being financed. The final maturity of the debt should be no longer than 40 years. Factors to be considered when determining the final maturity of debt include: the average life of the assets being financed, relative level of interest rates and the year-to-year differential in interest rates.

6. Maturity Structure

The District's long-term debt may include serial and term bonds. Serial bonds have sequential maturity dates scheduled at regular intervals. Term bonds have a long-term maturity date and

single coupon and are redeemed in specified increments at set time intervals. Other maturity structures may also be considered which can be demonstrated to be consistent with the objectives of the District's Debt Management Policy.

7. Credit Enhancement

The District shall procure credit enhancement for a sale of bonds if the General Manager, in consultation with the Municipal Advisor, determines that it is cost effective to do so. Credit enhancement may be bond insurance or bank letters of credit.

8. Senior/Subordinate Lien

The District may utilize a senior/subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on water rates, marketing considerations and previous issuance bond documents. Senior debt has priority over subordinate debt. Subordinated debt is payable each year only after other debts with a higher claim have been satisfied.

9. Redemption Features & Refunding Policy

To preserve flexibility and refinancing opportunities, the District debt will generally be issued with call provisions which enable the District to retire the debt earlier or enable the refunding of the debt prior to maturity. The District may consider calls that are shorter than traditionally offered in the market and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the District will evaluate the efficiency of call provisions alternatives.

10. Coupon Structure

Debt may include par, discount, premium and capital appreciation bonds. Discount, premium, and capital appreciation bonds must be demonstrated to be advantageous relative to par bond structures. Debt issued at par means it is sold at its face value. Debt issued at discount means that the selling price is less than face value, or at a discount. Debt issued at a premium means it is sold at an amount higher than the face value. Capital appreciation bonds increase in value over the life of the bond.

C. Communication and Disclosure

1. Rating Agencies

The District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The General Manager shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies shall include:

- Full disclosure, on an annual basis, of the financial condition of the District;
- A formal presentation when requested by the rating agencies, covering economic, financial, operational and other issues that impact the District's credit;
- Timely disclosure of major financial events that impact the District's credit;

- Timely dissemination of the Comprehensive Annual Financial Report, following its acceptance by the District's Board of Directors; and
- Full and timely distribution of any documents pertaining to the sale of bonds.

2. Bond Insurers

The General Manager shall manage relationships with the analyst at the bond insurers assigned to the District's credit, if any.

3. Disclosure Procedures

The District shall comply with SEC regulations on disclosure, which require municipal debt issuers to provide specified financial and operating information at the time of new bond issuance (Official Statement) and during the life of the bonds (Continuing Disclosure Annual Report).

4. Trustee

The General Manager shall procure the services of a Trustee for the creation and maintenance of District debt related funds dictated by bond documents. Such accounts include, but are not limited to:

- Project,
- Escrow,
- Rebate,
- Debt Service,
- Cost of Issuance, and
- Reserve.

D Debt Administration

1. Investment of Bond Proceeds

Investment of bond proceeds shall be consistent with federal tax requirements and with requirements contained in the governing bond documents.

2. Record Retention and Disbursement of Bond Proceeds

The IRS guideline for record retention is life of bonds plus 3 years. For refundings, the refunded bonds retention schedule is reset to match the refunding bonds retention schedule of life of refunding bonds plus 3 years. The District's record retention policy is cancellation, redemption or maturity of the bonds plus 10 years.

Frequency of Reimbursement/Claims preparation

The preparation of reimbursement claims must be coordinated through the District's Administrative Service Division Manager/Treasurer to the appropriate level of funding from bond proceeds versus District operating reserves. The review of reimbursement requirements may be

performed on a quarterly basis to assess the appropriate amount and timing of reimbursement claims.

Reimbursement Period

In general, the reimbursement allocation is made not later than 18 months after the later of:

- a. The date the original expenditure is paid; or
- b. The date the project is placed in service or abandoned, but in no event more than 3 years after the original expenditure is paid.

3. Arbitrage Compliance

The Administrative Services Division shall obtain a qualified firm to perform Arbitrage Rebate Calculations for all District bond issuances and prepare reports and necessary filing documents as necessary. Ninety percent (90%) of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be rebated to the United States Internal Revenue Service (IRS) no later than 60 days after the end of each fifth Bond/COP Year. Additionally, should the Bonds/COPs be retired on or prior to final maturity, 100% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) as of such retirement date will become due and payable within 60 days.

4. Debt Service

The District shall fully budget all debt service obligations of the District annually. Utilizing the services of the Trustee, the District will make all debt service payments per the bond document schedule and shall not in any circumstance make the payment late.

5. Debt Administration

To ensure debt proceeds are used as intended, the District shall implement internal control procedures that include at least the following:

- 1) All reimbursement claims for bond funded capital projects shall be reviewed by the Administrative Services Division prior to submission to the Trustee.
- 2) District accounting staff shall prepare periodic reports on the use of debt proceeds for management and Board review and external reporting as required by State law.