

MINUTES OF REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT, FEBRUARY 22, 2017:

A regular meeting of the Board of Directors of the Palmdale Water District was held Wednesday, February 22, 2017, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. President, Robert Alvarado, called the meeting to order at 7:00 p.m.

1) Pledge of Allegiance/Moment of Silence.

At the request of President Alvarado, Information Technology Manager Stanton led the pledge of allegiance followed by a moment of silence in honor of our troops and law enforcement.

2) Roll Call.

Attendance:

Robert Alvarado, President
Vincent Dino, Vice President
Marco Henriquez, Treasurer
Joe Estes, Secretary
Kathy Mac Laren, Director

Others Present:

Dennis LaMoreaux, General Manager
Matt Knudson, Assistant General Manager
Christina Burrows, Assistant General Counsel
Mike Williams, Finance Manager
Jennifer Emery, Human Resources Director
Tim Moore, Facilities Manager
Jim Stanton, Information Technology Manager
Jon Pernula, Water & Energy Resources Director
Laura Gallegos, Public Affairs Specialist
Bob Egan, Financial Consultant
Dawn Deans, Executive Assistant
11 members of the public

3) Adoption of Agenda.

It was moved by Director Estes, seconded by Director Henriquez, and unanimously carried by all members of the Board of Directors present at the meeting to adopt the agenda, as written.

4) Public Comments for Non-Agenda Items.

Ms. Melissa Montoya, Palmdale resident, stated that she has applied for the Public Affairs Director position and provided the Board with a copy of her resume.

Miss A.V. Latina, Jr. Miss A.V. Latina, and Young Miss A.V. Latina provided a background on their organization and community service efforts and requested sponsorship from the Board of Directors.

There were no further public comments.

5) Presentations:

5.1) None at This Time.

Information Technology Manager Stanton provided a voting lesson on the new Boardroom voting system.

There were no presentations.

6) Action Items – Consent Calendar: (The Public Shall Have an Opportunity to Comment on Any Action Item on the Consent Calendar as the Consent Calendar is Considered Collectively by the Board of Directors Prior to Action Being Taken.)

6.1) Approval of Minutes of Regular Meeting Held February 8, 2017.

6.2) Payment of Bills for February 22, 2017.

6.3) Approval to Disband the Following Board Ad Hoc Committees: Ad Hoc Legal Services Committee, Ad Hoc Board Norms Committee, Ad Hoc Littlerock Dam Committee, Ad Hoc Fin Feather Committee, Ad Hoc GM Contract Committee, Ad Hoc Best Practices Committee, Ad Hoc Energy Committee, Ad Hoc Board Compensation and Expenses Committee, and Ad Hoc Spanish Interpreter Committee. (President Alvarado)

President Alvarado announced the items included in the Consent Calendar after which it was moved by Director Mac Laren, seconded by Director Dino, and unanimously carried by all members of the Board of Directors present at the meeting to approve those items included in the Consent Calendar.

7) Action Items - Action Calendar (The Public Shall Have an Opportunity to Comment on Any Action Item as Each Item is Considered by the Board of Directors Prior to Action Being Taken.)

7.1) Consideration and Possible Action on Resolution No. 17-6 Being a Resolution of the Board of Directors of the Palmdale Water District Ending Emergency Drought Restrictions and Surcharge and Commending District Customers

on Conservation Accomplishments During the Drought. (Water & Energy Resources Director Thompson II)

Water & Energy Resources Director Pernula provided an overview of Resolution No. 17-6, state mandates, the District's Water Waste Policy, and the public's outstanding conservation efforts, and after a brief discussion of the drought, the District's State Water Project allocation, and outdoor water use relief for customers, it was moved by Director Mac Laren, seconded by Director Henriquez, and unanimously carried by all members of the Board of Directors present at the meeting to approve Resolution No. 17-6 Being a Resolution of the Board of Directors of the Palmdale Water District Ending Emergency Drought Restrictions and Surcharge and Commending District Customers on Conservation Accomplishments During the Drought.

A copy of Resolution No. 17-6 is hereby made a portion of the minutes of this meeting.

7.2) Consideration and Possible Action on 2016 Strategic Plan Initiatives. (General Manager LaMoreaux/Assistant General Manager Knudson/Dr. Bill Mathis)

Dr. Bill Mathis, The Mathis Consulting Group, stated that the 2016 Strategic Plan and its initiatives are key to high performance and allow the Board and staff to measure progress; that staff tonight is asking for input and approval of a Strategic Plan for 2016/2017; and that he recommends the Board begin the 2018 Strategic Plan update process.

Assistant General Manager Knudson reviewed the District's mission and vision statements followed by staff's detailed overview and update on projects for Strategic Plan Initiative No. 1 – Water Resource Reliability, Strategic Plan Initiative No. 2 – Organizational Excellence, Strategic Plan Initiative No. 3 – System Efficiency, Strategic Plan Initiative No. 4 – Financial Health & Stability, Strategic Plan Initiative No. 5 – Regional Leadership, and Strategic Plan Initiative No. 6 – Customer Care & Advocacy.

A brief discussion then ensued regarding grant applications, grants for the Employee Wellness Program, minor water rate increases needed to maintain system efficiency and energy storage, repairs to Oroville Dam, the three-year water rate adjustment, expanding the District's internship opportunities, offering tours to the Westside School District, the District's involvement in the A.V. Watermaster, the District's 100th anniversary in 2018, and the positive transition from Customer Service to Customer Care and the public's appreciation of this transition.

President Alvarado then recommended two Directors continue to attend Employee All-Hands luncheons and the Before the First Drop program be presented to current elected officials, these officials be invited to tour the District's facilities, and Directors become involved in outreach to the community. There were no further requests to add items to the Strategic Initiatives.

After a further discussion of the Directors most-liked areas of the Strategic Plan, it was moved by Director Henriquez, seconded by Director Estes, and unanimously carried by all members of the Board of Directors present at the meeting to approve the 2016/2017 Strategic Plan and a training session be held to plan for 2018.

7.3) Status Report on Cash Flow Statement and Current Cash Balances as of December, 2016. (Financial Advisor Egan/Finance Committee)

Financial Advisor Egan stated that a conference call is scheduled March 1 with Fitch Ratings to review the District's bond rating; that any rating agency would be impressed with earlier discussions and action on the Strategic Plan as rating agencies are interested in previous plans, current plans, and planning for the future to maintain these plans.

He then reviewed the investment funds report as of December, 2016, including the increase in cash due to assessments received, RDA pass-through funds, CDs and maturing CDs, and the increase in the Rate Stabilization Fund and the cash flow statement, including year-end cash, projects carried forward to 2017, the positive year-end report, and year-end debt service coverage.

7.4) Status Report on Financial Statements, Revenue, and Expense and Departmental Budget Reports for December, 2016. (Finance Manager Williams/Finance Committee)

Finance Manager Williams reviewed in detail the balance sheet, profit and loss statement, year-to-year comparisons, month-to-month comparisons, consumption comparisons, and revenue and expense analysis reports for the period ending December, 2016 and stated that most departments are operating at or below the targeted expenditure percentage of 100% followed by discussion of the potential decrease in revenue from eliminating the Drought Surcharge and balancing costs and production.

He then provided an overview on the number of payments received through the various payment options, mailed reminder and shut off notices, the number of customers helped from 5:00 p.m. to 6:00 p.m. versus Fridays, and the Pay Near Me payment option.

At the request of President Alvarado, Facilities Manager Moore reviewed the efficiency of the District's new telephone answering service for 24-hour on-call staff and the telephone app service available for monitoring the District's security system and alarms.

7.5) Status Report on Committed Contracts Issued and Water Revenue Bond Projects. (Assistant General Manager Knudson/Finance Committee)

Assistant General Manager Knudson provided an update on the Contractual Commitments and Needs for 2017 capital projects, consulting and engineering support projects, new and replacement equipment, and water quality fee funded projects along with an update on the Water Revenue Bond Series 2013A Bond funds and payments to date.

7.6) Consideration and Possible Action on Resolution No. 17-7 Being a Resolution of the Board of Directors of the Palmdale Water District Adopting a Debt Management Policy. (No Budget Impact – Finance Manager Williams/Finance Committee)

Finance Manager Williams provided an overview of Resolution No. 17-7 and after a brief discussion of the Resolution, it was moved by Director Mac Laren, seconded by Director Dino, and unanimously carried by all members of the Board of Directors present at the meeting to approve Resolution No. 17-7 being a Resolution of the Board of Directors of the Palmdale Water District Adopting a Debt Management Policy.

A copy of Resolution No. 17-7 is hereby made a portion of the minutes of this meeting.

7.7) Consideration and Possible Action on Authorization of the Following Conferences, Seminars, and Training Sessions for Board and Staff Attendance Within Budget Amounts Previously Approved in the 2017 Budget:

a) **Water Education for Latino Leaders 5th Annual Conference “Water in California” to be Held March 23 – 24, 2017 in San Diego.**

b) **A.W.W.A. Spring Conference “Facing the Future Together” to be Held April 10 – 13, 2017 in Anaheim.**

After a brief discussion of these conferences, it was moved by Director Henriquez, seconded by Director Mac Laren, and unanimously carried by all members of the Board of Directors present at the meeting to approve Board and staff attendance at the following conferences, seminars, and training sessions within budget amounts previously approved in the 2017 budget: Water Education for Latino Leaders 5th Annual Conference “Water in California” to be Held March 23 – 24, 2017 in San Diego and A.W.W.A. Spring Conference “Facing the Future Together” to be Held April 10 – 13, 2017 in Anaheim.

8) Information Items:

8.1) Reports of Directors:

a) Meetings/General Report.

Director Estes reported that on February 14, he attended the Littlerock Dam Spilling Tour; that on February 22, he attended a Board briefing with General Manager LaMoreaux; and that also on February 22, he had a brief briefing with Dr. Mathis.

Director Henriquez reported that on February 10, he attended the NAREB Installation Dinner Gala with President Alvarado; that on February 14, he attended the Littlerock Dam Spilling Tour; that on February 22, he attended a Board briefing with General Manager LaMoreaux; that also on February 22, he attended training for the Boardroom voting system; and that also on February 22, he had a telephone briefing with Dr. Mathis.

Director Mac Laren reported that on February 9, she attended the Antelope Valley State Water Contractors Association meeting; that on February 15, she attended the Palmdale Recycled Water Authority meeting; that on February 17, she attended the Antelope Valley Watermaster meeting; that also on February 17, she attended the Palmdale Public Agencies meeting; that on February 21, she attended a Board briefing with General Manager LaMoreaux; that also on February 21, she attended training for the Boardroom voting system; and that on February 22, she attended a lunch and dinner briefing with Dr. Mathis.

Director Dino reported that on February 14, he attended the AVEK Board meeting; that on February 15, he attended the Palmdale Recycled Water Authority meeting; that on February 21, he attended a Board briefing with General Manager LaMoreaux; that on February 22, he is attending the Palmdale Water District Board meeting; and that on February 28, he will be attending the AVEK Board meeting.

President Alvarado reported that on February 1, he attended an agenda review and approval meeting; that on February 9, he attended the Antelope Valley State Water Contractors Association meeting; that on February 10, he attended the NAREB Installation Dinner Gala, and he and Director Henriquez presented a Certificate of Appreciation on behalf of the District; that on February 14, he attended an agenda review and approval meeting with General Manager LaMoreaux; that also on February 14, he attended the Littlerock Dam Spilling Tour; that on February 15, he attended the Palmdale Recycled Water Authority meeting; that on February 16, he attended a Board briefing with General Manager LaMoreaux; that on February 17, he attended the Palmdale Public Agencies meeting, and this group will be meeting quarterly; that on February 21, he attended training for the Boardroom voting system; that on February 25, he will be attending the Palmdale Reclamation Plant Tour; that also on February 25, he will be attending the Palmdale Women's Club Excellence Through Education dinner and requested a Certificate of Appreciation be prepared for presentation.

a) President's Report.

President Alvarado stated that his goal is to continue to lead the Board in such a way to honor all Strategic Plan Initiatives approved by the Board and support these Initiatives financially as much as we possibly can; that this in the District's best short and long term interest as the payoff will be good, and future generations will appreciate this planning; that he hopes to have the full support of this Board to ensure staff's recommendations and the six Initiatives approved tonight for 2017 are supported; and that he will be requesting a Planning Workshop for the Board to brainstorm on a plan for 2018.

He then invited Vice President Dino to run the next meeting as practice for transition.

1) 2017 Standing Committees. (President Alvarado)

President Alvarado then distributed the 2017 Standing Committees and Appointments dated February 22, 2017.

c) Standing Committee/Assignment Reports (Chair):

- 1) AVSWCA**
- 2) PRWA**
- 3) Finance Committee**

President Alvarado stated that reports on these meetings were provided earlier in the meeting with the exception of the Finance Committee meeting, which was cancelled.

8.2) Report of General Manager.

- a) February, 2017 Written Report of Activities Through January, 2017.**

General Manager LaMoreaux stated that his written report is included with the agenda packets if there are any questions and then reviewed the rainfall report prepared from the District's rainfall station showing current rainfall at seven inches, which is average for our area.

He then reported that the Resolution to change the District's elections to even-year elections will be considered by the Los Angeles County Board of Supervisors at their April 4 meeting.

8.3) Report of General Counsel.

Assistant General Counsel Burrows stated that he has no report.

9) Public Comments on Closed Session Agenda Matters.

There were no public comments on closed session agenda matters.

10) Break prior to closed session.

At 9:42 p.m., President Alvarado called for a five-minute recess. He reconvened the Regular meeting at 9:47 p.m.

11) Closed Session Under:

11.1) Conference with Legal Counsel – Existing Litigation: A closed session will be held, pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding existing litigation to which the District is a party. The title of such litigation is as follows: *Antelope Valley Ground Water Cases*.

At 9:47 p.m., President Alvarado called for a closed session pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding pending litigation to which the District is a party, the title of such litigation being: *the Antelope Valley Ground Water Cases*.

He reconvened the regular meeting at 9:57 p.m.

12) Public report of any action taken in closed session.

President Alvarado stated that a closed session was held pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding pending litigation to which the District is a party, the title of such litigation being: *the Antelope Valley Ground Water Cases*; that the Board was updated on the status of this matter via telephone conference; but that no reportable action was taken in closed session.

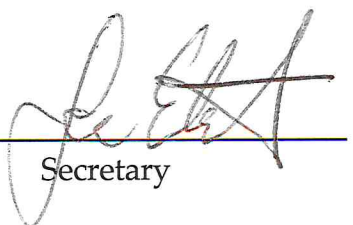
13) Board Members' Requests for Future Agenda Items.

President Alvarado stated that staff has direction to schedule a 2018 Strategic Plan Workshop.

There were no further requests for future agenda items.

14) Adjournment.

There being no further business to come before the Board, the meeting was adjourned at 9:58 p.m.


Secretary

RESOLUTION NO. 17-6
RESOLUTION OF THE BOARD OF DIRECTORS
OF THE PALMDALE WATER DISTRICT
ENDING EMERGENCY DROUGHT RESTRICTIONS AND SURCHARGE
AND COMMENDING DISTRICT CUSTOMERS ON CONSERVATION
ACCOMPLISHMENTS DURING THE DROUGHT

WHEREAS, Palmdale Water District (“District”) is a water district empowered to provide water service within District boundaries; and

WHEREAS, Water Code Section 1058.5 grants the State Water Resources Control Board (SWRCB) the authority to adopt emergency regulations in certain drought years in order to: “prevent the waste, unreasonable use, unreasonable method of use, or unreasonable method of diversion, of water, to promote water recycling or water conservation;” and

WHEREAS, on February 8, 2017, the SWRCB voted to extend the Governor issued Executive Order B 37-16 that orders provisions contained in his January 17, 2014 Emergency Proclamation, April 25, 2014 Emergency Proclamation, Executive orders B-26-14, B-28-14, B-29-15 and B-36-15 remain in full force and effect except as modified by B-37-16 through November 2017; and

WHEREAS, the District adopted Resolution No. 16-8 on July 13, 2016 extending water conservation by customers in response to drought and the April 25, 2014 Governor’s Proclamation; and

WHEREAS, on February 8, 2017, the SWRCB made a provision in the adopted resolution extending and amending Drought Related Emergency Regulations allowing for re-evaluation of self-certification by local water suppliers of water supply reliability during an additional three years of drought; and

WHEREAS, water supplies have improved to such an extent that an additional three years of drought would not threaten health and safety and that sufficient supplies exist to meet the State Water Resources Control Board’s criteria for no conservation under the self-certification provision; and

WHEREAS, the District’s customers have saved, through their collective conservation efforts, over 22% cumulatively since June of 2015, when compared to 2013 production; and

WHEREAS, the water savings through conservation during the course of the drought have protected and preserved precious water supplies; and

WHEREAS, the District is required to comply with State law, including regulations adopted by the SWRCB, codified at Title 23 of the California Code of Regulations and is authorized pursuant thereto to implement its requirements; and

WHEREAS, the District desires to comply with the SWRCB emergency water conservation regulations and to continue to provide the SWRCB with monthly production reporting and enforce water waste prohibitions as required by the continued Drought Related Emergency Regulations.

NOW, THEREFORE, BE IT RESOLVED, by the Board of Directors of the Palmdale Water District as follows:

Section 1: Findings: The Board of Directors of the District hereby finds and declares as follows:

1) On February 8, 2017, the SWRCB adopted a resolution extending and revising Drought Related Emergency Regulations such that they shall carry through the end of November, 2017 requiring the District to continue to comply with the regulation and allowing for the District to eliminate its conservation order through self-certification of water supply.

2) In 2017, the District is utilizing carryover water from the 2016 State Water Project allocation.

3) The current 2017 State Water Project allocation is at 60%.

4) Due to available surface water, the District will rely less on groundwater supplies.

5) Available supplies are sufficient to cover health and safety needs in the event of three more years of drought.

6) District customers have conserved over 22% during the drought when compared to usage during 2013.

Section 2: Compliance with Extended State Water Board Regulation. The Board of Directors of the District authorizes the General Manager to continue to enforce water waste prohibitions as required by the SWRCB.

Section 3: Conservation Goal and Authorized Actions. The Board of Directors of the District hereby recognizes and commends the customers of the District for their conservation efforts and accomplishments during the drought.

Section 4: Cancellation of Stage 1 Water Shortage Rationing and Authorized Actions: The Board of Directors of the District, in accordance with the foregoing findings, hereby determines and declares the current water supply sufficient to call an end to Water Shortage Rationing. The General Manager is authorized to implement Action 1 through 3 to effectively lift all drought related charges and restrictions not required by the extended Drought Related Emergency Regulation.

Action 1. Submission of Self-Certification of Water Supply. The General Manager shall take all steps necessary to certify with the SWRCB the District's re-evaluated water supply.

Action 2. Cessation of Drought Surcharge. The General Manager shall take all steps necessary to cease assessment of the Stage 1 Drought Surcharge.

Action 3: Cessation of Time of Day Water Restrictions: The General Manager will take all steps necessary to repeal and cease enforcement of all Time of Day watering restrictions imposed under Resolution No. 16-8.


Section 5: Appeal: Decisions made by the District under the regulations set forth in this Resolution may be appealed by consumers in accordance with the procedure set forth in the District Rules and Regulations.

Section 6: Severability: If any portion of this Resolution is found to be unconstitutional or invalid, the District hereby declares that it would have enacted the remainder of this Resolution regardless of the absence of any such valid part.

Section 7: Effective Date: This Resolution shall take effect March 1, 2017.

BE IT FURTHER RESOLVED, that the Board of Directors finds that the provisions of this Resolution are exempt from the provisions of the California Environmental Quality Act as an action to mitigate emergency conditions and as a rate setting measure pursuant to Public Resources Code §21080(b)(4) and (8).

PASSED AND ADOPTED at a regular meeting of the Board of Directors of Palmdale Water District held on February 22, 2017.



President, Board of Directors
Palmdale Water District



Secretary, Board of Directors
Palmdale Water District

APPROVED AS TO FORM:



Aleshire & Wynder, LLP
District Legal Counsel

RESOLUTION NO. 17-7

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE PALMDALE WATER DISTRICT
ADOPTING A DEBT MANAGEMENT POLICY**

WHEREAS, the Palmdale Water District is an issuer of public debt; and

WHEREAS, California Senate Bill 1029, adopted in September 2016, requires public debt issuers who issue debt after January 1, 2017 to have an adopted debt policy; and

WHEREAS, the Palmdale Water District may issue debt after January 1, 2017.

NOW, THEREFORE BE IT RESOLVED, by the Board of Directors of the Palmdale Water District that:

The Debt Management Policy, as provided in Exhibit A, is approved effective February 22, 2017.


WE THE UNDERSIGNED, do hereby certify that the above and foregoing resolution was duly and regularly adopted and passed by the Board of Directors of the Palmdale Water District at a regular meeting duly held on the 22nd day of February 2017, by the following vote:

AYES: President Alvarado, Director Dino, Director Henriquez,
Director Estes, Director Mac Laren

NOES: None

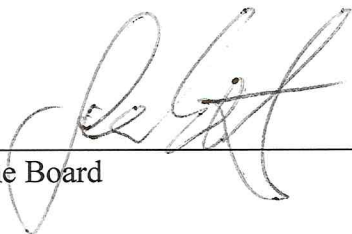
ABSTAIN: None

ABSENT: None



President of the Board

ATTEST:



Secretary of the Board

APPROVED AS TO FORM:



General Counsel
ALESHIRE & WYNDER, LLP

EXHIBIT "A"

PALMDALE WATER DISTRICT DEBT MANAGEMENT POLICY

February 22, 2017

POLICY STATEMENT

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

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

Purpose and Use of Debt

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

Purpose of Policy

The purpose of this debt management policy is to:

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

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

- The state law which authorizes the issuance of the debt
- The federal and state laws which govern the eligibility of the debt for tax-exempt status

EXHIBIT "A"

- The federal and state laws which govern the issuance of taxable debt
- The federal and state laws which govern disclosure, sale, and trading of the debt both before and subsequent to issuance

Types of Debt

Revenue Bonds, Notes, Certificates of Participation, special tax or special assessment bonds, capital leases, commercial paper, bank loans, direct placements and lease-purchase financings will be treated as debt and subject to these same policies.

I. GENERAL PROVISIONS

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

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

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

II. CONDITIONS FOR DEBT ISSUANCE

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

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

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

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Standards for Use of Debt Financing

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

Debt Capacity

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

Financing Criteria

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

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

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

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

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

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

Variable Rate Debt – Variable rate debt products are rolling series of short-term investments that are resold periodically and are therefore priced at the short-end of the yield curve at low interest rates. If an issuer accepts the risks inherent in variable interest rates, the issuer can take advantage of some of the lowest rates available on the market. Variable rate debt may be appropriate for the District's portfolio, especially in an environment where increased interest earnings on invested funds offset the increased cost of variable rate debt. Variable rate debt products include variable rate demand obligations, commercial paper, and auction rate securities. The District may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term

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borrowing. In determining whether or not to use variable rate debt, the District will analyze the risks associated with the variable rate debt products, including derivative products.

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

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

Refinancing Outstanding Debt

The Finance Manager/Chief Financial Officer ("FM/CFO") shall have the responsibility to evaluate potential refunding opportunities. The District will consider the following issues when analyzing potential refinancing opportunities:

Debt Service Savings – The District shall establish a target savings level greater of or equal to 5% of the par of debt refunded on a net present value (NPV) basis (after payment of all costs associated with the issuance). This figure will serve only as a guideline and the District may determine that a different savings target is appropriate; the District shall evaluate each refunding opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

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

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

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

EXHIBIT "A"

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

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

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

Outstanding Debt Limitations

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

Method of Issuance

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

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

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

- Issuance of variable rate or taxable bonds
- Complex structures or credit considerations (such as non-rated bonds), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders, unique/proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process
- Market volatility, such that the District would be better served by flexibility in the timing of its sale, such as in the case of a refunding issue wherein the savings target is sensitive to interest rate fluctuations, or in a changing interest rate environment
- When an underwriter has identified new financing opportunities or presented alternative structures that financially benefit the District
- As a result of an underwriter's familiarity with the project/financing, that enables the District to take advantage of efficiency and timing considerations

EXHIBIT "A"

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

Market Communication, Debt Administration and Reporting Requirements

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

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

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

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

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

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

Internal Controls for Use of Proceeds – FM/CFO will ensure that the proceeds of debt issuances are used in accordance with the intended uses.

Policy Review – This policy should be reviewed on a biennial basis by the Finance Committee and adopted by the Board.

POLICY REVISION DATES

02/22/2017 *Adoption of New Policy*