REGULAR FINANCE COMMITTEE MEETING
WEDNESDAY, AUGUST 8, 2018, AT 9:00 AM
61750 CHOLLITA ROAD, JOSHUA TREE, CA 92252

AGENDA

1. CALL TO ORDER

2. PLEDGE OF ALLEGIANCE

3. DETERMINATION OF QUORUM

4. APPROVAL OF AGENDA

5. PUBLIC COMMENT

6. APPROVE MINUTES OF THE PRIOR COMMITTEE MEETING
   - Draft Minutes – July 11, 2018

7. CUSTOMER ACCOUNT ASSISTANCE PROGRAM – Authorize General Manager to change policy to eliminate or modify Customer Account Assistance Program requirement and refer to the Board of Directors for approval.

8. 17/18 BAD DEBT WRITE-OFF OF $27,587.56 – Review and refer bad debt write-off in the amount of $27,587.56 to the Board of Directors for approval.

9. DEBT MANAGEMENT POLICY – Review and refer to the Board of Directors for approval.

10. STAFF REPORT

11. ADJOURNMENT

INFORMATION
During "Public Comment," please use the podium microphone. State your name, have your information prepared, and be ready to provide your comments. The District is interested and appreciates your comments. A 3-minute time limit will be imposed. Any person with a disability who requires accommodation to participate in this meeting should telephone Joshua Basin Water District at (760) 366-8438, at least 48 hours before the meeting to request a disability-related modification or accommodation. Materials related to an item on this Agenda submitted to the Committee after distribution of the agenda packet are available for public inspection in the District's office located at 61750 Chollita Road, Joshua Tree, California 92252 during regular business hours.

JOSHUA BASIN WATER DISTRICT
Minutes of the
REGULAR MEETING OF THE FINANCE COMMITTEE
Wednesday, July 11, 2018
61750 Chollita Road, Joshua Tree, CA 92252

CALL TO ORDER/PLEDGE OF ALLEGIANCE
Vice President Johnson called the meeting to order at 9:00 a.m.

DETERMINATION OF A QUORUM
Directors Present –Vice President Johnson and Director Floen

STAFF PRESENT
Curt Sauer, GM, Susan Greer, AGM, Mark Ban, AGM-Operations, Anne Roman, Accountant, Sarah Johnson, HR Manager

GUESTS - 3

APPROVAL OF AGENDA

Director Floen made a motion to approve the Agenda. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

PUBLIC COMMENT – None

CONSENT CALENDAR

- Approve the Draft Minutes of June 13, 2018

Director Floen made a motion to approve the draft minutes of June 13, 2018. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

REVIEW CHECK REGISTERS FROM MAY 2018 –

Director Floen made a motion to refer the May 2018 check registers to the Board for approval. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

UPDATE ON COLLECTION OF DELINQUENT WATER BILLS VIA THE TAX ROLLS–
AGM Greer gave a brief overview followed by a short Q&A period with the Finance Committee.

Director Floen made a motion to refer the collection of delinquent water bills via the tax rolls to the Board for approval. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

GUARANTEE DEPOSIT AND FEES FOR TEMPORARY/CONSTRUCTION METERS- AGM Greer gave the staff report and a brief Q&A period followed.

Director Floen made a motion to refer guarantee deposit and fees for temporary/construction meters to the Board for approval. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

APPROVAL TO CONTRACT WITH MARY ORTON COMPANY TO COMPLETE THE STRATEGIC PLAN FOR THE DISTRICT – GM Sauer gave the staff report and a brief Q&A period followed.

Director Floen made a motion to refer the approval to contract with Mary Orton Company to complete the strategic plan for the District to the Board for approval. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

CHANGES IN OFFICE HOURS OF OPERATION – GM Sauer gave the staff report and a brief Q&A period followed.

Director Floen made a motion to refer the changed in office hours of operation to the Board for approval. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

CUSTOMER ACCOUNT ASSISTANCE PROGRAM (CAAP) – GM Sauer gave the staff report and a brief Q&A period followed. GM Sauer was asked to bring the CAAP back to the committee for evaluation at the next Finance Committee meeting.

3RD QUARTER ENDING 3/31/2018 FINANCIAL REPORT – AGM Greer gave the staff report and walked the committee members through the financial report. A brief Q&A period followed.

Director Floen made a motion to refer the 3rd Quarter Ending 3/31/2018 Financial Report to the Board for approval. Vice President Johnson seconded the motion.

MSC[1] (Floen/Johnson) motion carried.

STAFF REPORT – GM Sauer shared updates on CSDA Borrowing, Gantt chart, and Well 14.

ADJOURNMENT – Director Floen made a motion to adjourn the Finance Committee meeting at 10:25 a.m. Vice President Johnson seconded the motion.

MSC[1] (Johnson/Floen) motion carried.

Respectfully,

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Susan Greer, Assistant General Manager, and Controller

JOSHUA BASIN WATER DISTRICT
STAFF REPORT

Meeting of the Finance Committee August 8, 2018

Report to: Committee Members

Prepared by: Susan Greer

TOPIC:
CUSTOMER ACCOUNT ASSISTANCE PROGRAM – RECOMMENDED POLICY CHANGE

RECOMMENDATION:
Authorize General Manager to change policy to eliminate or modify Customer Account Assistance Program requirements.

ANALYSIS:
The Customer Account Assistance Program (CAAP) was established to assist customers that experienced large bills from unknown or accidental circumstances, such as large or prolonged leaks or water theft.

Each year the District has provided assistance for accounts that are rental properties with the bill paid by the owner, or vacation rentals, or from customers that own second homes in the District but do not live here and do not routinely monitor their properties.

The General Manager met with the Citizens Advisory Committee (CAC) on 7/10/18, recommending the policy be changed to apply only to customers that are living at their primary residence. After significant discussion, the CAC voted 5-0 to recommend elimination of the CAAP program entirely. The CAC cited personal responsibility, the 10-fold increase in the cost of the CAAP program over the last five years, and leaving the District open to complaints of bias when a primary residence is also used as a home business versus a house being rented as a vacation rental as the reasons for their recommendation.

This past 12 months would have resulted in increased revenues of $2,476 if CAAP was applied to only primary residents, and a savings of $6,761 if the program was entirely eliminated.

History of CAAP assistance provided over the last five years, which has increased more than ten-fold, is below:

2013	$609.34	
2014	1,199.97	
2015	1,647.74	
2016	6,184.60	
2017	6,761.36	See breakdown for 2017 attached

Existing Article 1.23 (b) language is attached for your review:

Note that the CAAP program was created over 18 years ago as a tool to allow staff to assist with large water bills for customers who needed help paying, and the Program requirements have been modified several times since. Prior to the Program, such requests for assistance were rare, but had to be heard by the Board of Directors at a public meeting. This was long before vacation rentals and a significant amount of out-of-town account holders.

While elimination of the CAAP would save significant staff time, the Board may not want to go back to having the Board involved in such issues. A simpler alternative exists.

Using the same criteria we use for the CAAP, a bill that is at least $400 more than the prior year's bill for the same month, Staff could be authorized to adjust the water bill to reflect all usage charged at the composite rate, which is the water consumption rate paid by the larger meters. That rate is currently $4.60 per unit, while the tiered water rates for ¾" and 1" meters vary from $3.70 to $5.80 per unit. The composite rate is designed to cover all District costs, so while the customer will pay less than with the tiered rates, the District is still *whole*. Let's look at an example:

Customer had a bill of $737.28 for 162 units of water compared to 41 units the prior year. Assistance of $139.78 was provided via the CAAP policy. If we simply adjusted the bill to reflect the composite rate, assistance of $97.52 would have been provided, a reduction in the amount of assistance resulting in savings of 30% by the District. This is still a savings of more than 13% off of the original bill for the customer. (This example is based on prior water rates in effect at the time.) Importantly, this is a very simple adjustment, not involving significant amounts of staff time, unlike the current program that requires the District to incur additional cost to help customers avoid paying us.

Note that the current criteria, a bill at least $400 more than the prior year, has been in place since 2014. Considering that water rates have increased each year since 2014, this base number should also increase to stay relevant and not simply provide assistance for increasing water rates. Water rates have increased over the last five years and different amounts of consumption result in larger or smaller percentages of increase. Only substantial consumption amounts will meet the criteria to qualify for assistance, approximately 100 units or more. Cumulatively, current rates are 74% higher than they were in 2014 for customers using 100 units or more. Applying that increase to the original $400 criteria in the 2014 CAAP, that number should now be $696. Staff recommends a smaller increase for now, to $550, which is midpoint between the current $400 and the "should be" number of $700, meaning that the water bill must be at least $550 more than the bill from the same month in the prior year to qualify for assistance. Staff could then have authority to reduce the billed amount by applying the composite rate. Smaller bills are determined to be within the customer's ability to pay, over time.

Alternatively, the entire CAAP program could be eliminated, as recommended by the CAC. Remember that the Rules & Regulations allows appeal of administrative rulings, and if there were no other option for water bill reduction, customers are entitled to take issues before the Board of Directors for determination.

Either option, eliminating the CAAP or modifying the policy to allow staff to charge the composite rate for large water bills, would require a resolution to amend the Rules & Regulations. The Board could also elect to leave the existing CAAP as is.

Fiscal Impact: Options to eliminate the CAAP or modify Rules to charge the composite rate would reduce the amount of assistance provided, saving the District money, while still providing some relief to customers.

Joshua Basin Water District Rules & Regulations

Article 1.23 (b)

Customer Account Assistance Program

The Customer Account Assistance Program provides a method to request bill reduction for a bill of unknown or accidental origin as defined by the customer, specifically the CAAP application. The Program was created to assist customers who have experienced extraordinary or unusual circumstances.

The procedure includes the customer's written application and JBWD investigation. Until the JBWD receives the customer's written application, the bill is due as presented. The application, plus information obtained as a result of the review and investigation, will be forwarded to the General Manager or a designee. While the CAAP application is being reviewed, a good faith payment, equal to the amount of the bill for the same month in the prior year, must be paid by the due date.

The General Manager or a designee shall determine the amount of assistance, if any, based upon review of the information obtained and in accordance with the current policy. No assistance will be considered for excessive water use cases that result from a violation of the JBWD Rules and Regulations.

Guidelines for assistance

- Account holder must show proof of repair of any leaks before receiving assistance. A Water Survey is also required before assistance is provided. Customer, or representative, must be present at the water survey conducted by a District employee.

- Customers are limited to two (2) CAAP's within a five (5) year period at the same location. A new owner-customer at the same location may be considered for additional assistance.

- Assistance is limited to no more than two consecutive monthly billing cycles; assistance is calculated by comparing the difference between the current and the prior year's bills for the month(s) in question. If water bill is greater than $400.00 compared to the previous year's usage, the customer is eligible for assistance. If this is a new account with no previous year comparable, then an average consumption of all months on the account will be used as the comparator.

- If the difference is less than $400.00, the account is not eligible for a CAAP. A payment plan, following existing procedures will be offered.

- If the difference is more than $400.00, an adjustment of no greater than 25 percent of the water usage may be approved by the General Manager (or designee), up to a maximum assistance of $800.00 The remaining bill is the customer's responsibility to pay. The customer may request a payment plan for the balance.

JOSHUA BASIN WATER DISTRICT
MEETING AGENDA REPORT

Meeting of the Finance Committee August 8, 2018

Report to: Committee Members

Prepared by: Susan Greer

TOPIC:
17/18 BAD DEBT WRITE-OFF OF $27,587.56

RECOMMENDATION:
Refer 17/18 bad debt write off in the amount of $27,587.56 to the Board of Directors for approval.

ANALYSIS:
In order to comply with audit requirements, the bad debt write-off for fiscal year 17/18 needs to be approved ASAP.

This write-off includes the first full year of inactive/locked meter bad debt in almost 20 years, which makes statistical comparisons difficult. In addition, both revenue and number of accounts billed are increasing, so logically, the write-off is also expected to increase.

- Both the number of accounts and the amount of the write off is increasing for the second consecutive year
- Proposed write off of $27,588 is an increase of 78% after an increase of 21% last year; the amount of bad debt has more than doubled in two years

This year, there are six accounts with write-offs over $500 on the list, all representing tenant accounts; there was only one such account last year. However, the most significant changes are occurring related to the inactive/locked meters. Those unpaid charges are significant enough that the 80%/20% ratio of tenant to owner bad debt that we have typically seen has changed.

- Proposed write off of 226 accounts includes 96 locked meter accounts compared to 30 last year
- Owners make up 58% of the *quantity* and 40% of the *amounts* being written off
- Tenants make up 42% of the *quantity* and 60% of the *amounts* being written off

There are 28 customers on the write off list, totaling $6,018, whose service was reinstated after lock off for non-payment, who already had a $200 deposit. This includes three of the six write off amounts over $500. Such lock off customers are already deemed to be high risk, thus the reason for the double deposit, but the current amount of deposit is insufficient for all but the lowest water users when final bills are left unpaid.

For perspective, it's important to remember that we are writing off $27,588 which is what remains unpaid from the 16/17 water revenues totaling $3,478,000; that's approximately ¾ of 1%. Almost all customers pay their water bills as due. That being said, there are opportunities to change policy in order to collect more revenues and reduce bad debt, and if so directed, we can draft language to propose new policies.

The guarantee deposit is the District's first defense against bad debt and needs to be increased. The guarantee deposit should keep pace with increasing water rates and it has not increased in more than 20 years. I am nearing completion of the fee study and my recommendation will be that we tie the guarantee deposit amount to the water rates, so that it can be automatically increased as the rates are increased. The deposit amount would be based on the average nine-unit consumption times three months. That still leaves vulnerability for higher water users and that could be addressed by giving staff authority to collect a larger deposit if/when we see that a customer's water usage is greater than the average.

Another policy that could reduce bad debt relates to addresses with multiple bad debts. Over 22% of the accounts on the list, nearly one-fourth, have two write offs in this year alone. About one-half of those accounts are owner accounts, related to locked meter billing. One address incurred over $1,400 in bad debt, and three other addresses had over $400 in bad debt this year. 39% of the addresses on the list have at least one and as many as four prior bad debts. Many of these are troublesome locations and a policy requiring owner responsibility for water bills could be enacted. Another option is the owner guarantee of payment, so that if a tenant doesn't pay their bill the owner is contingently responsible so that a lien can be filed on the property or we could collect via the tax rolls.

Note that we are attempting to address the significant increase in the number of locked meter account write offs by filing of liens, but that is a long-term solution as payments aren't required until properties are sold. This year we collected only $1,762 bad debt from prior years, which write-off totals more than $72,000 over just the last five years. Payments are received from customers who come back later to establish service or as a result of liens.

FISCAL IMPACT:
$27,587.56 bad debt expense for 17/18 fiscal year.

17/18 budget is $31,680, so our actual cost is 13% less than budget.

General Ledger Account Manager: 01-5-03-07010

Save and Close | Save and New | Delete | Print Screen | Help | TCM (0)

01-5-03-07010

BAD DEBT

Fiscal: 7/1/2018 - 6/30/2019

Balance: 0.00

Pending: 0.00

- General
- Segmentation
- Report Groups
- Notes
- Budget
  - Summary
  - Detail
  - Period Distributions
  - Adjustments
  - Budget Notes
- History
  - Detail
  - Period Activity
  - Fiscals
  - Journal Entries
  - Encumbrances
  - Reserves
  - Legacy History
    - Account
- TCM
- User Defined

Fiscal Begin Date	Fiscal End Date	Beginning Balanc	Activity	Ending Balance	Original Budget	Adjustme
7/1/2019	6/30/2020	0.00	0.00	0.00	0.00	
7/1/2018	6/30/2019	0.00	0.00	0.00	40,000.00	
7/1/2017	6/30/2018	0.00	0.00	0.00	31,680.00	
7/1/2016	6/30/2017	0.00	15,346.97	15,346.97	28,800.00	
7/1/2015	6/30/2016	0.00	11,515.63	11,515.63	15,500.00	
7/1/2014	6/30/2015	0.00	10,798.30	10,798.30	23,000.00	
7/1/2013	6/30/2014	0.00	9,977.41	9,977.41	25,000.00	
7/1/2012	6/30/2013	0.00	24,388.27	24,388.27	25,000.00	
7/1/2011	6/30/2012	0.00	35,494.78	35,494.78	20,400.00	
7/1/2010	6/30/2011	0.00	25,744.88	25,744.88	20,000.00	
7/1/2009	6/30/2010	0.00	23,244.28	23,244.28	20,000.00	
7/1/2008	6/30/2009	0.00	25,908.43	25,908.43	0.00	

HISTORICAL BAD DEBT EXPENSE
08/09 — 16/17

JOSHUA BASIN WATER DISTRICT
MEETING AGENDA REPORT

Meeting of the Finance Committee August 8, 2018

Report to: Committee

Prepared by: Susan Greer

TOPIC:
DEBT MANAGEMENT POLICY

RECOMMENDATION:
Refer to the Board of Directors for approval.

ANALYSIS:
Government Code 8855(i) requires that the District adopt a debt policy as a condition of obtaining our $3M loan. You may recall that this topic was mentioned several times by our rate consultant Alex Handlers in conjunction with the discussions about borrowing money.

The attached Debt Management Policy is based significantly on the sample Debt Management Policy provided by CSDA. Coincidentally, our loan is being obtained from CSDA, but they provide excellent sample policies for special districts as part of their California Special Districts Association service to member agencies. In addition, I utilized a few extracts from some other sample policies that I found.

As required by the Government Code, the policy addresses the purposes for which debt proceeds may be used, the types of debt that can be issued, the relationship between the debt and our long-term planning, capital improvement program and budget.

The proposed policy will be formatted and incorporated into the Administration Code as Article 11, and a resolution will be required to do so.

FISCAL IMPACT:
N/A

GOVERNMENT CODE - GOV

TITLE 2. GOVERNMENT OF THE STATE OF CALIFORNIA [8000 - 22980] *(Title 2 enacted by Stats. 1943, Ch. 134.)*

DIVISION 1. GENERAL [8000 - 8899.24] *(Division 1 enacted by Stats. 1943, Ch. 134.)*

CHAPTER 11.5. California Debt and Investment Advisory Commission [8855 - 8859] *(Heading of Chapter 11.5 amended by Stats. 2004, Ch. 7, Sec. 2.)*

8855. (a) There is created the California Debt and Investment Advisory Commission, consisting of nine members, selected as follows:

(1) The Treasurer, or his or her designee.

(2) The Governor or the Director of Finance.

(3) The Controller, or his or her designee.

(4) Two local government finance officers appointed by the Treasurer, one each from among persons employed by a county and by a city or a city and county of this state, experienced in the issuance and sale of municipal bonds and nominated by associations affiliated with these agencies.

(5) Two Members of the Assembly appointed by the Speaker of the Assembly.

(6) Two Members of the Senate appointed by the Senate Committee on Rules.

(b) (1) The term of office of an appointed member is four years, but appointed members serve at the pleasure of the appointing power. In case of a vacancy for any cause, the appointing power shall make an appointment to become effective immediately for the unexpired term.

(2) Any legislators appointed to the commission shall meet with and participate in the activities of the commission to the extent that the participation is not incompatible with their respective positions as Members of the Legislature. For purposes of this chapter, the Members of the Legislature shall constitute a joint interim legislative committee on the subject of this chapter.

(c) The Treasurer shall serve as chairperson of the commission and shall preside at meetings of the commission.

(d) Appointed members of the commission shall not receive a salary, but shall be entitled to a per diem allowance of fifty dollars ($50) for each day's attendance at a meeting of the commission not to exceed three hundred dollars ($300) in any month, and reimbursement for expenses incurred in the performance of their duties under this chapter, including travel and other necessary expenses.

(e) The commission may adopt bylaws for the regulation of its affairs and the conduct of its business.

(f) The commission shall meet on the call of the chairperson, at the request of a majority of the members, or at the request of the Governor. A majority of all nonlegislative members of the commission constitutes a quorum for the transaction of business.

(g) The office of the Treasurer shall furnish all administrative assistance required by the commission.

(h) The commission shall do all of the following:

(1) Assist all state financing authorities and commissions in carrying out their responsibilities as prescribed by law, including assistance with respect to federal legislation pending in Congress.

(2) Upon request of any state or local government units, to assist them in the planning, preparation, marketing, and sale of debt issues to reduce cost and to assist in protecting the issuer's credit.

The commission may require information to be submitted in the report of final sale that it considers appropriate. The issuer may redact confidential information contained in the documents if the redacted information is not information that is otherwise required to be reported to the commission.

(k) (1) A public agency, whether state or local, shall submit an annual report for any issue of debt for which it has submitted a report of final sale pursuant to subdivision (j) on or after January 21, 2017. The annual report shall cover a reporting period from July 1 to June 30, inclusive, and shall be submitted no later than seven months after the end of the reporting period by any method approved by the commission. Before approving any annual method of reporting pursuant to this subdivision, the commission shall consult with appropriate state and local debt issuers and organizations representing debt issuers for purposes that shall include, but not be limited to, making a proposed reporting method more efficient and less burdensome for issuers. The annual report shall consist of the following information:

(A) Debt authorized during the reporting period, which shall include the following:

(i) Debt authorized at the beginning of the reporting period.

(ii) Debt authorized and issued during the reporting period.

(iii) Debt authorized but not issued at the end of the reporting period.

(iv) Debt authority that has lapsed during the reporting period.

(B) Debt outstanding during the reporting period, which shall include the following:

(i) Principal balance at the beginning of the reporting period.

(ii) Principal paid during the reporting period.

(iii) Principal outstanding at the end of the reporting period.

(C) The use of proceeds of issued debt during the reporting period, which shall include the following:

(i) Debt proceeds available at the beginning of the reporting period.

(ii) Proceeds spent during the reporting period and the purposes for which it was spent.

(iii) Debt proceeds remaining at the end of the reporting period.

(2) Compliance with this subdivision shall be required for each issue of debt with outstanding debt, debt that has been authorized but not issued, or both, during the reporting period.

(3) The commission may, if technology permits, develop an alternate reporting method, provided that any alternate reporting method is in furtherance of the purpose of collecting the data required by this subdivision. Before approving any alternate annual method of reporting pursuant to this subdivision, the commission shall consult with appropriate state and local debt issuers and organizations representing debt issuers for purposes that shall include, but not be limited to, making a proposed reporting method more efficient and less burdensome for issuers.

(Amended by Stats. 2016, Ch. 307, Sec. 2. (SB 1029) Effective January 1, 2017.)

ARTICLE 11

DEBT MANAGEMENT POLICY

11.01 Purpose of the Policy. The purpose of this Debt Management Policy is to establish guidelines for the issuance and management of District debt, and to provide guidance for decision makers with respect to options available for financing infrastructure, and other capital projects, so that the most prudent, equitable, and cost effective financing can be chosen.

This Policy is intended to comply with Government Code Section 8855(i), and shall govern all debt issued by the Joshua Basin Water District ("District".) The District hereby recognizes that a fiscally prudent debt policy is required to:

a) Maintain the District's sound financial position.
b) Ensure the District has the flexibility to respond to changes in future service priorities, revenues, and operating expenses.
c) Protect the District's credit-worthiness.
d) Ensure that all debt is structured to protect current and future taxpayers, ratepayers and constituents of the District.
e) Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.

It is a goal of the District to provide for the infrastructure and capital project needs of its ratepayers, financing those capital project needs from a combination of current revenues, available reserves and prudently issued debt. Debt financing can be utilized to achieve an equitable allocation of capital costs/charges between current and future system users.

11.02 Purposes for Which Debt May Be Issued.

11.02.01 Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District. The standard term of long-term debt borrowing is 10 to 30 years. Long-term debt financings are appropriate:

a) When a project to be financed is necessary to provide District services.
b) When the project to be financed will benefit constituents over several years.
c) When total debt does not constitute an unreasonable burden to the District and its taxpayers or ratepayers.
d) When the debt is used to refinance outstanding debt to reduce the total cost of the debt or to realize other benefits of a debt restructuring, such as increased flexibility in the use of cash and reserves.

Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses. The District may use long-term debt financings subject to the following conditions:

a) The project to be financed must be approved by the Board of Directors.
b) The District estimates that sufficient revenues will be available to service the debt through its maturity.
c) The District determines that the issuance of the debt will comply with the applicable state and federal law.
d) The capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

11.02.02 Short-Term Debt. Short-term debt may be issued to provide financing for the District's operational cash flows to maintain a steady and even cash flow balance as in anticipation of periodic receipts of property taxes and other revenues. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment. The standard term of short-term debt borrowing is 10 years or less.

11.03 Types of Debt – The following types of debt are allowable under this Policy:

a) General obligation bonds (GO bonds)
b) Bond or grant anticipation notes (BANs)
c) Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
d) Other revenue bonds and COPs
e) Tax and other revenue anticipation notes (TRANs)
f) Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
g) Tax increment financing to the extent permitted under State law
h) Refunding Obligations
i) State Revolving Loan Funds
j) Lines of Credit

The Board of Directors may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Management Policy. Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

11.04 Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Debt Management Policy and to implement policy decisions incorporated in the District's capital budget and capital improvement plan. The decision to incur new indebtedness should be integrated with the Board-adopted annual operating and capital budgets.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues ("pay as you go".) The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

11.05 Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserves and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budgets.

It is a policy goal of the District to protect taxpayers, ratepayers and constituents by using conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical total borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings approximately 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than any escrow fund negative arbitrage. The cost of refinancing will always be less than the savings.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to temporarily reduce annual budgetary expenditures. Capital investments intended to reduce District operating costs indefinitely, as by improving the efficiency of its operations, are appropriate for long-term debt.

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.

The District shall seek to time debt issues to avoid need for unplanned general fund expenditures for capital improvements or equipment.

11.06 Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

a) Any continuing disclosure undertakings entered into the by the District in accordance with SEC Rule 15c2-12.
b) Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
c) The District's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the AGM/Controller of the District (or his or her written designee), or (b) by the District, to be held and accounted for in a separate fund or account to ensure debt proceeds are expended only for the purposes for which the debt was issued, the expenditure of which will be carefully documented by the District in records compliant with current accounting standards and subject to the District's annual audit.