Article 50 Finance Policies

Sec. 50.1 Investment Policy

(a) Mission Statement. It is the policy of the District to invest public funds in a manner which will provide the maximum security with a market rate of return, while meeting the daily cash flow demands of the entity and conforming to all state and local statutes governing the investment of public funds.

(b) Scope. This policy applies to the investment of all funds, excluding the investment of employee retirement and deferred compensation funds. Proceeds from certain debt issues and funds held by fiscal agents are covered by separate policies. The funds are accounted for in the District's *Comprehensive Annual Financial Report* and include the general water and wastewater treatment funds.

1. Pooling of Funds. Except for cash in certain restricted funds, the District will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping, and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

(c) Objectives. The primary objectives, in priority order, of investment activities shall be safety, liquidity, and yield (Government Code (GC) 53600.5):

1. Safety. Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

A. Credit Risk. The District will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

(1) Limiting investments to the types of securities listed as "authorized investments" in this Policy.
(2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the District will do business in accordance with section (e).
(3) Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

Per Ordinance No. 2010-01 Adopted 3/15/10 [Sec. 50.1(b)]
Per Ordinance No. 2012-01 Adopted 3/19/12 [Sec. 50.1(c)]

(c) Objectives (Cont'd.)

B. Interest Rate Risk. The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

(1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

(2) Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section (h)).

2. Liquidity. The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

3. Yield. The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

A. A security with declining credit may be sold early to minimize loss of principal.
B. A security swap would improve the quality, yield, or target duration in the portfolio.
C. Liquidity needs of the portfolio require that the security be sold.

(d) Standards of Care.

1. Prudence. All participants in the investment process shall recognize that the investment portfolio is subject to the prudent investor standard as set forth by California Government Code Section 53600.3. This standard recognizes that in a diversified portfolio, occasional measured losses may be inevitable and must be considered within the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

   The "prudent investor" standard states that, "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."

2. Ethics and Conflicts of Interest. Officers and employees involved in the investment process shall follow the District's Code of Ethical Practices. Outside employment, business relationships, financial transactions, and other interests or actions which are, or could be judged to be incompatible with, would interfere with, or impair the independent judgment in the proper discharge of official duties and responsibilities shall not be continued or engaged.

3. Authority. Investment of public funds of local agencies including Valley Center Municipal Water District is authorized and controlled by the California Government Code beginning with Section 53600. Authority for the investment of public District funds rests primarily with the Board of Directors (Government Code Section 53601 etc.). In accordance with Sections 53607 and Section 40.6 of this Code, the Board has delegated the authority and responsibility to invest and reinvest the funds of the District to the Treasurer. Implied within the investment of public funds includes the purchasing, selling, acquiring, exchanging, investing and reinvesting of surplus funds as authorized or limited by this code and state law. The Treasurer may further delegate the day to day operations of investment of public funds to Finance Department personnel.

(e) Authorized Financial Institutions and Brokers/Dealers. A list will be maintained of financial institutions authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

1. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines
2. Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)
3. Proof of state registration
4. Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
5. Certification of having read and understood and agreeing to comply with the District's investment policy
6. Evidence of adequate insurance coverage

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Treasurer.

(f) Safekeeping & Custody

1. Delivery vs. Payment. All trades of marketable securities will be executed by delivery vs. payment (DVP).

2. Safekeeping. Where possible, investment securities are to be purchased in book-entry form in the District's name and held in safekeeping for the District by the broker, bank, or other institution properly insured and recognized as an appropriate depository for similar investments. Term and non-negotiable instruments, such as certificates of deposit, can be held by the Treasurer or in safekeeping as the Treasurer deems appropriate. All instruments shall be in the name of the District.

3. Internal Controls. The Treasurer shall establish a system of internal controls, which shall be documented in writing. The internal controls shall be reviewed by the District's independent auditor. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the District. The controls shall include the requirement that all purchases and sales of investments be by wire transfer from and to the District's authorized depository.

(g) Authorized Investments.

1. The following investments will be permitted by this policy and are those defined by state law where applicable:

   A. Bonds issued by the District (GC 53601(a)).

   B. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest (GC 53601(b).

   C. Federal agency or United States government-sponsored enterprise (GSE) obligations, participations, or instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises, as provided by Government Code Section 53601(f). These include but are not limited to:

	Type	Agency/ GSE	U.S. Gov't. Guaranteed
Federal Farm Credit Banks (FFCB)	Coupon or discount	GSE	No
Federal Home Loan Banks (FHLB)	Coupon or discount	GSE	No
Federal Home Loan Mortgage Corporation (FHMLC)	Mortgage pass-through	GSE	No
Federal National Mortgage Association (FNMA)	Coupon	GSE	No
Government National Mortgage Association (GNMA)	Mortgage pass-through	Agency	Principal and interest
Small Business Administration (SBA)	Variable rate	Agency	Face value and interest
Tennessee Valley Authority (TVA)	Coupon	GSE	No

Per Ordinance No. 2010-01 Adopted 3/15/10 [Sec. 50.1(g)(1)(C)]

(g) Authorized Investments (Cont'd.).

D. Certificates of deposit and other evidences of deposits issued by a nationally or state-chartered bank, a savings association or a federal association, a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. Such deposits must be fully insured by the federal government and have, at the time the investment is made, a rating of satisfactory (or equivalent) or better on the most recently available report from a reputable rating service. Certificates of deposit shall not exceed 30 percent of the District's investment portfolio. Deposits with any single institution which exceed federal insurance limits shall not exceed $500,000, be properly collateralized in accordance with law, have, at the time the investment is made, a rating of excellent (or equivalent), or better on the most recently available report from a reputable rating service, and not exceed one year. The maximum exposure to the portfolio for the total of all collateralized deposits will be limited to 10% (GC 53601(i)).

1. Certificates of deposit may be purchased through a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit in accordance with GC 53601.8 in accordance with the above limits. These certificates of deposit are included in the 30 percent limit above.

E. Shares of beneficial interest issued by a diversified management company as authorized by Government Code Section 53601(l).

F. Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code Section 6509.7 that invests in the securities and obligations authorized in Government Code Section 53601(a) through (q), inclusive (including repurchase agreements otherwise prohibited by paragraph 4 below). Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. The joint powers authority shall have retained an investment adviser that meets all of the following criteria: (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission, (2) The adviser has not less than five years of experience investing in the securities and obligations authorized, and (3) The adviser has assets under management in excess of $500 million (GC 53601(p)).

Per Ordinance No. 2012-01 Adopted 3/19/12 [Sec. 50.1(g)(1)(D) and (F)]
Per Resolution No. 2018-08 Adopted 3/19/18 [Sec. 50.1(g)(F)

(g) Authorized Investments (Cont'd.).

G. Deposits in the State of California Local Agency Investment Fund (GC § 16429.1).

H. Deposits with the Treasurer of the County of San Diego (GC § 53684).

I. Deposits with the California Asset Management Program (CAMP) (GC § 53601).

J. Deposits with California Cooperative Liquid Assets Securities System (California CLASS) in accordance with (GC § 53601)

2. Investment Pools. A thorough investigation of government sponsored pools (either state-administered or developed through joint powers statutes) and money market mutual funds should be made prior to investing, and on a continual basis. The following shall be considered:
   - Eligible investments.
   - Statement of investment policy and objectives.
   - Interest, gains, and losses calculations and allocations.
   - Safeguarding and settlement processes.
   - Securities pricing and audit processes.
   - Deposit and withdrawal eligibility and restrictions.
   - Reporting schedule.
   - Use of reserves, retained earnings, etc. by the pool.
   - Fee schedule.
   - Eligibility for bond proceeds.

3. Collateralization. Full collateralization will be required on all demand deposit accounts, including checking accounts and non-negotiable certificates of deposit.

4. Prohibited Investments. The District shall not invest any surplus funds in:

   A. Inverse floaters, range notes, mortgage derived interest-only strips, or in any security that could result in zero interest accrual if held to maturity, and any investment not expressly authorized in this code (GC 53601.6).
   B. Any security that at the time of purchase has a term remaining to maturity in excess of five years, unless the Board of Directors has granted specific express authority to purchase the investment (GC 53601).
   C. Repurchase agreements.

Per Ordinance No. 2024-03 Adopted 3/18/24 [Sec. 50.1(g) J.]
Per Ordinance No. 2023-03 Adopted 3/20/23 [Sec. 50.1(g) I.]
Per Ordinance No. 2012-01 Adopted 3/19/12 [Sec. 50.1(g)(4)A & B]

Sec. 50.1 Investment Policy (Cont'd.)

(h) Investment Parameters.

1. Diversification. The investments shall be diversified by:

   A. Limiting investments to avoid over-concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
   B. Limiting investment in securities that have higher credit risks,
   C. Investing in securities with varying maturities, and
   D. Continuously investing a portion of the portfolio in readily available funds such as local government investment pools or money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

   Some investment instruments have specific limitations as noted in "Authorized Investments" above.

2. Maximum Maturities. To the extent possible, the District shall attempt to match its investments with anticipated cash flow requirements. Any security that at the time of purchase has a term remaining to maturity in excess of five years is not permitted, unless the Board of Directors has granted specific express authority to purchase the investment.

3. Investment Procedures. The investment officer shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. Procedures should include reference to safekeeping, delivery vs. payment, investment accounting, wire transfer agreements, and collateral/depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the investment officer. The investment officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

4. Trading. The District shall not make investments for the purpose of trading or speculation as the dominant criterion such as anticipating an appreciation of capital value through changes in market rates.

Per Ordinance No. 2006-02 Adopted 5/1/06 [Sec. 50.1(h)(2)]

(i) Reporting. The Treasurer shall render monthly investment reports, within 30 days following the end of the month, to the General Manager and Board of Directors. These reports will include for all investments the type of investment, issuer, date of maturity, par and dollar amount invested, rate of interest, and current market value. It will include the individual transactions executed over the last month, and average weighted yield to maturity of the portfolio as compared to applicable benchmarks. These reports will state compliance of the portfolio to the statement of investment policy or the manner in which the portfolio is not in compliance, the ability of the District to meet its expenditure requirements for the next six months, and the source of market values presented.

1. Performance Standards. The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. An appropriate benchmark shall be established against which portfolio performance shall be compared on a regular basis. Market-average rate of return is defined as the twelve-month rolling average return on one-year U. S. Treasury bonds.

2. Marking to Market. The market value of the portfolio shall be calculated at least monthly and the market value of the portfolio shall be included in the investment report. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

(j) Review. Annually, during the month of March, the Treasurer shall present the statement of investment policy to the Board of Directors for review and modification, if necessary.

(k) Glossary.

Accrued Interest: Interest earned on a bond but not yet paid by the issuer.
Agencies: Securities issued by a federal or federally sponsored agency.
Amortization: Annual recognition of discount received or premium paid on an investment, or periodic payments of principal owed on a debt.
Annual Comprehensive Financial Report (ACFR): The official annual report for the District.
Basis Point: A unit of measurement used in valuing fixed income securities, 1/100 of 1 percent.
Benchmark: A comparative base for measuring the performance or risk tolerance of the investment portfolio.
Book Value: The value at which a security is carried on the books of the investor. Typically cost adjusted for amortization of discount or premium.
Broker: A broker brings buyers and sellers together for a commission.
Call: The redemption of a bond by the issuer before maturity in accordance with the terms of the bond.

Per Ordinance No. 2022-05 Adopted 3/21/22 [Sec. 50.1(k)]
Per Ordinance No. 2006-02 Adopted 5/1/06 [Sec. 50.1(i)(1)]

(k) (Glossary (Cont'd.)

California Asset Management Program (CAMP): A California Joint Powers Authority (JPA) established in 1989 to provide California public agencies with professional investment services.

California Cooperative Liquid Assets Securities System (California CLASS): A California Joint Powers Authority (JPA) established in 2022 to provide California public agencies with professional investment services.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate.

Collateral: Securities or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Coupon: The annual rate of interest paid on the bond's face value. Also, a certificate attached to a bond evidencing interest due on a payment date.

Credit Risk: The risk to an investor that an issuer will default on a security.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Delivery Versus Payment: Delivery of securities with an exchange of money for the securities. The opposite is delivery versus receipt, which is delivery of securities with an exchange of a signed receipt for the securities.

Depository: A financial institution in which the moneys of the District are deposited (GC 53630(c)).

Derivative: Financial instrument created from, or whose value depends upon, one or more underlying indexes or securities.

Discount: The difference between the cost of a security and its maturity when quoted at lower than face value.

Discount Securities: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, such as U.S. Treasury Bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Agencies: See Agencies.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits.

Federal Farm Credit Banks (FFCB): Government sponsored wholesale banks that provide credit for agriculture. Includes Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks.

Federal Home Loan Banks (FHLB): Government sponsored wholesale banks that provide credit in the housing market.

Federal Home Loan Mortgage Corporation (FHLMC): Government sponsored wholesale banks that provide credit in the housing market. Also known as "Freddie Mac."

Per Ordinance No. 2024-03 Adopted 3/18/24 [Sec. 50.1(k)]
Per Ordinance No. 2023-03 Adopted 3/20/23 [Sec. 50.1(k)]
Per Ordinance No. 2022-05 Adopted 3/21/22 [Sec. 50.1(k)]

(k) Glossary (Cont'd.)

Federal National Mortgage Association (FNMA): FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

GC: California Government Code.

Government National Mortgage Association (GNMA or Ginnie Mae): GNMA was also chartered under the Federal National Mortgage Association Act in 1938. Securities are guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities, often referred to as "pass-throughs," are backed by the FHA, VA, or FmHA mortgages.

Internal Controls: A system designed to ensure reasonable assurance that assets are protected from loss, theft, or misuse. The concept of reasonable assurance recognizes that the cost of a control should not exceed the likely benefits and that the valuation of costs and benefits requires estimates and judgments by management.

Liquidity: An asset that can be converted easily and rapidly into cash without a substantial loss of value.

Local Agency Investment Fund (LAIF): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Risk: The risk that the value of security will adversely change as a result of changes in market conditions.

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

Maturity: The date on which the principal of an investment becomes payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Money Market Mutual Fund: An investment company that pools money and invests solely in money market instruments.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund, calculated by totaling the fund's assets, subtracting the fund's liabilities, and dividing this total by the number of shares outstanding.

(k) Glossary (Cont'd.)

Par: Face value of a bond.
Portfolio: Collection of securities held by an investor.
Premium: The amount by which the price paid for a security exceeds its par value.
Principal: The face value or par value of a debt instrument.
Prudent Person Rule: An investment standard. The law requires that the investment officer may invest money only in list of securities selected by the custody state. The trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.
Repurchase Agreement (RP OR REPO): An agreement of one party to sell securities at a specified price to a second party and a simultaneous agreement of the first party to repurchase the securities at a specified price or at a specified later date.
Safekeeping: Holding of assets (securities) by a financial institution.
San Diego County Treasurer's Pooled Money Fund: Local government investment pool managed by the San Diego County Treasurer-Tax Collector.
Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.
Small Business Association (SBA): Guarantees private loans to certain eligible enterprises.
Structured Notes: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options, and shifts in the shape of the yield curve.
Tennessee Valley Authority (TVA): A federal corporation and the nation's largest public power company.
Treasury Bills: Short-term U.S. Treasury non-interest bearing discount securities issued as direct obligations of the U.S. Government and having initial maturities ranging from a few days to 26 weeks.
Treasury Bonds: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of 10 to 30 years.
Treasury Notes: Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.
Yield: The rate of annual income return on an investment, expressed as a percentage. Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Per Ordinance No. 2023-03 Adopted 3/20/23 [Sec. 50.1(k)]
Per Ordinance No. 2012-01 Adopted 3/19/12 [Sec. 50.1(k)]

Sec. 50.2 Budget Policies. The following policies shall be followed both in preparing the annual budget and during the course of financial operations of the District.

(a) Reserves. Reserves are to be established and used as follows. Reserves may carry negative balances if it is probable that the deficits will be recovered within a reasonable time.

Reserves funds will not earn interest unless noted below.

The disposition of funds collected in excess of limits shown is at the discretion of the Board of Directors.

All reserves have specific funding sources except for the Operating and Capital Improvement Reserves which will be funded in the order presented from accumulated net earnings.

1. Rate Stabilization Reserves:

A. Water Rate Stabilization Reserve: The District component of sales in excess of budgeted water sales and revenue collected for fixed charges in excess of those fixed expenses incurred shall be placed in a rate stabilization reserve to fill any deficit resulting from the water sales volume falling below projected budget figures. It could also be used to defer future increases in the District's component of the water commodity rate and fixed wholesale charges. Fixed wholesale charges include the Metropolitan Water District's Capacity Reservation Charge and the San Diego County Water Authority's Customer Service Charge and Emergency Storage Project Charge. The reserve shall be limited to no more than 50% of the District component of budgeted water sales and fixed wholesale charges.

B. Pumping Rate Stabilization Reserve: Pumping revenues in excess of the cost of electrical and natural gas power, the cost of the operation and maintenance of all pumping facilities, and the cost of pumping facility capital projects shall be placed in this reserve to defer future increases in the pumping charge rates. The reserve shall be limited to no more than 50% of budgeted pump charge revenues.

Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2]
Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2(a)(1)(A)]
Per Ordinance No. 2010-02 Adopted 3/15/10 [Sec. 50.2(a)(1)(B)

(a) Reserves (Cont'd.)

2. Operating Reserve:

A reserve shall be established for the asset categories listed below to provide funding for emergencies and natural disasters, such as fire, earthquake, flooding, etc. This reserve need not be funded in the budget.

(1) General Fund
(2) Lower Moosa Canyon Water Reclamation Facility
(3) Woods Valley Ranch Water Reclamation Facility

The Operating Reserves and the Rate Stabilization Reserves together are considered to be discretionary reserves, unrestricted or uncommitted reserves not anticipated to be used in the current fiscal year. The District shall endeavor to maintain these discretionary reserves at a minimum three and a maximum six months operations and maintenance budget (excluding wholesale water and power purchases for the General Fund Operating Reserve).

3. Restricted Reserves:

A. Debt Service Reserve: This reserve includes debt service taxes collected but not yet payable to debt holders, reserves required by debt agreements, and unexpended proceeds from debt issues, and will be used to fulfill debt requirements in accordance with debt covenants. This reserve shall earn interest in accordance with state statute.

B. Replacement Reserves: Reserves for the following asset categories shall be established.

(1) Lower Moosa Canyon Water Reclamation Facility
(2) Woods Valley Ranch Water Reclamation Facility
(3) Woods Valley Ranch Low Pressure Sewer System
(4) Lower Moosa Canyon Water Reclamation Facility Low Pressure Sewer System

Each reserve shall receive an annual budget appropriation based on a percentage of the current annual depreciation of the asset category as determined from the estimated current replacement cost, service life and age of facility. Proceeds from the sale of these assets shall be credited to these reserves. The "Buy-In" component of the capacity charges for the asset category shall be credited to these reserves. This reserve shall earn interest in accordance with state statute.

Per Ordinance No. 2023-08 Adopted 6/19/23 [Sec. 50.2(a)3. B.]
Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2(a)(2) and (3)]

Sec. 50.2 Budget Policies (Cont'd.)

(a) Reserves (Cont'd.)

3. Restricted Reserves (Cont'd)

B. *(Cont'd).* These reserves may be used for the replacement of assets or facilities or installation of system upgrades, but not for installation of additional assets or facilities needed for increasing capacity. The reserve shall not exceed the replacement value of the assets covered. With Board approval, funds may be loaned from this reserve for other purposes subject to full repayment of the principle amount plus interest.

C. Capital Improvement Charge (CIC) Reserve(s): Capital Improvement Charges shall be credited to the capital improvement charge reserve to provide funding for capital improvement projects or debt service for capital improvement projects.

These reserves may be used for the replacement of assets or facilities, installation of system upgrades, or to make debt service payments (principal and interest) related to capital improvement projects. The reserve shall not exceed the replacement value of the assets covered.

4. Capital Reserves:

A. Continuing Projects Reserves: Unexpended appropriations for capital projects which are not completed in a fiscal year will be carried forward to the following fiscal year.

B. Capacity Charges Reserves: Capacity charges shall be credited to the capacity charges reserve in accordance with state statute to provide funding for future capital projects identified in the facility master plan. This reserve shall earn interest in accordance with state statute.

i. The "Buy-In" component of the water capacity charge shall be credited to the Capacity Charges Reserve. The reserve shall not exceed the current estimated cost of all projects outlined in the Water Master Plan which are (1) not allocable to future demand, (2) not previously appropriated, and (3) not contingent on outside factors.

ii. The "Incremental" component of capacity charges shall be credited to the Capacity Charges Reserve in accordance with Board approved allocations for Specific Benefit Area (SBA). Projects.

C. Capital Improvements Reserve: Water availability charges not allocated to the readiness-to-serve charge and debt service, and property taxes not otherwise allocated shall be credited to the capital improvements reserve to provide funding for future capital projects. In addition, retained earnings not reserved for other purposes shall be transferred to this reserve.

Per Ordinance No. 2025-02 Adopted 4/21/25 [Sec. 50.2(a)3.C.]
Per Ordinance No. 2023-06 Adopted 6/19/23 [Sec. 50.2(a)4.B.]
Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2(a)3.B. and (a)4.B.-C.]

(a) Reserves (Cont'd.)

The table below provides reference to reserves. For complete details refer to §50.2:

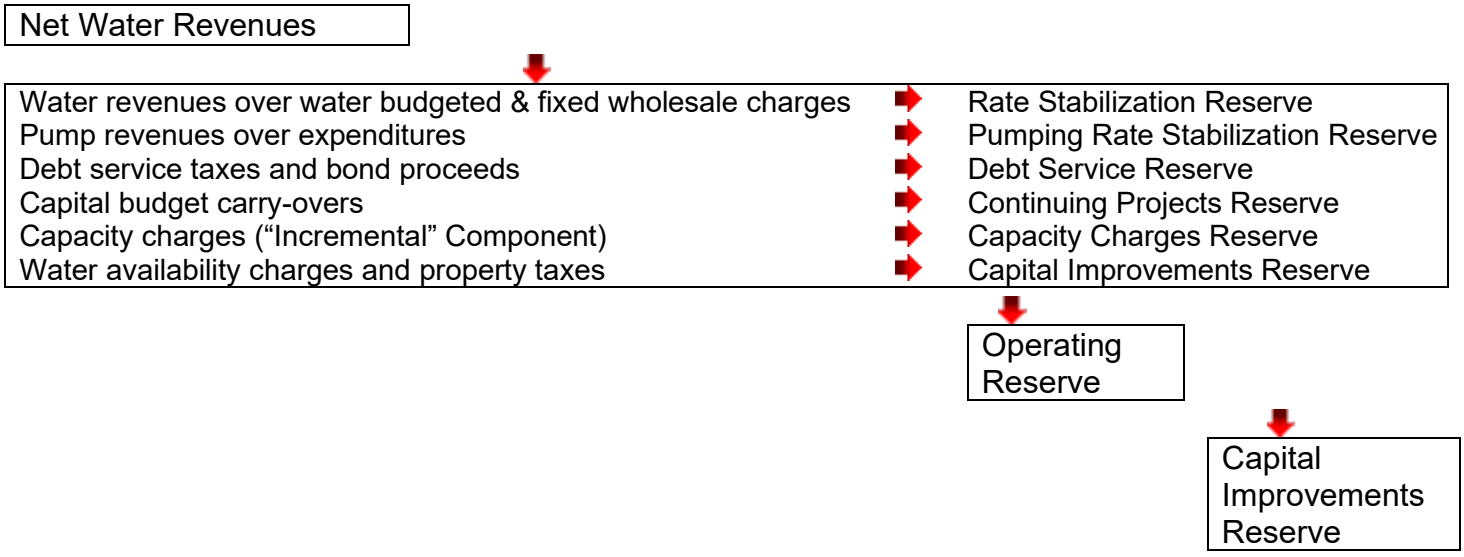
Reserve	Source	Use	Minimum	Maximum	Index
Rate Stabilization Reserves:					
Rate Stabilization	Water revenues over water budgeted and fixed wholesale charges	Deficits resulting from sales volume below budget projections and to moderate future rate increases	None	50% of budgeted District component of water sales and fixed wholesale charges	No
Pumping Rate Stabilization	Pumping revenues over costs	Defer future pumping rate increases; construction of pump facilities	None	50% of budgeted pump charge revenue	No
Operating Reserve:					
Operating Reserve	Earnings not reserved for other purposes	Emergencies or natural disasters	Operating and Rate Stabilization Reserves at three months operating budget *(excluding water & power)*	Operating and Rate Stabilization Reserves at six months operating budget *(excluding water & power)*	No
Restricted Reserves:					
Debt Service	Debt service taxes, reserves under debt agreements, and unexpended debt proceeds	Fulfill debt requirements in accordance with debt covenants	Per debt agreements	Per debt agreements	Per debt agree-ments
Replacement: ◦ Lower Moosa Canyon WRF ◦ Woods Valley Ranch WRF ◦ Low Pressure Sewer System	Budget appropriation equal to a percentage of annual depreciation on related assets, plus proceeds from sales of those assets	Replacement of assets, System Upgrades	None	Replacement cost of assets	Interest
Capital Improvement Charge Reserve(s)	Capital Improvement Charges	Capital Improvement Projects or Debt Service for Capital Improvement Projects	None	Projects outlined in Master Plan	No

Per Ordinance No. 2025-02 Adopted 4/21/25 [Sec. 50.2(a) 4. table]
Per Ordinance No. 2023-08 Adopted 6/19/23 [Sec. 50.2(a) 4. table]
Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2 (a) 4. table]

Reserve	Source	Use	Minimum	Maximum	Index
Capital Reserves:					
Continuing Projects	Unexpended appropriations for capital projects carried forward	Budgeted capital projects	None	Unexpended appropriations	No
Capacity Charges	"Buy-In" Component	Future capital projects	None	Projects outlined in Master Plan	Interest
	"Incremental" Component for SBA			Authorized SBA Total Reimbursement Amount	
Capital Improvements	Availability charges not allocated to RTS and debt service, property taxes, and earnings not reserved for other purposes	Future capital projects	None	Projects outlined in Master Plan	No

The following charts provide reference to the flow of funds into the reserves. For complete details refer to Section 50.2

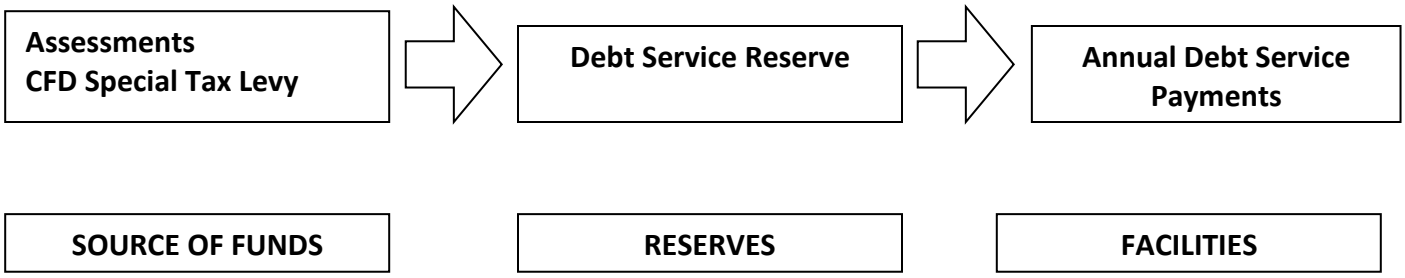
Water System Reserves:



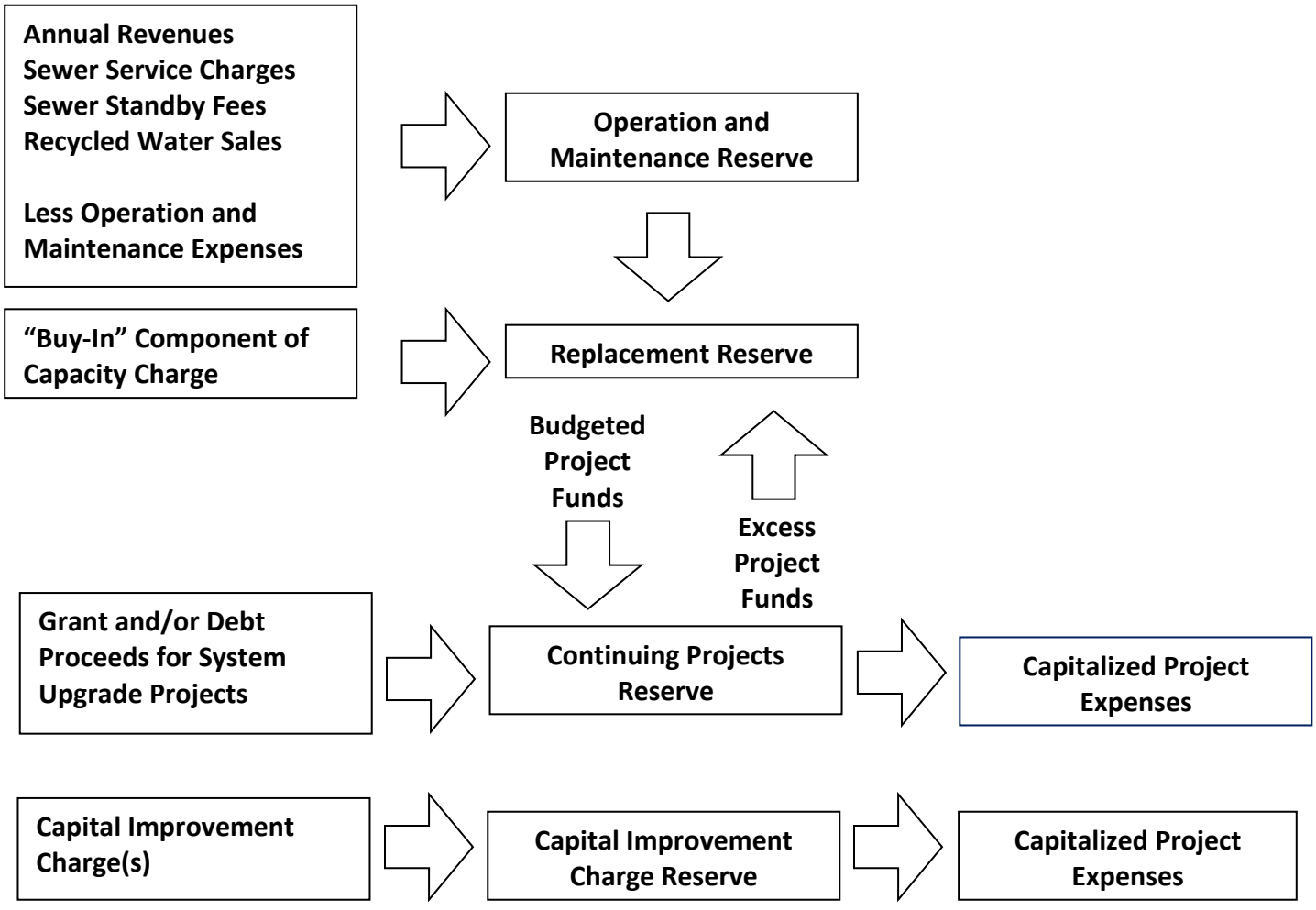
Per Ordinance No. 2023-06 Adopted 6/19/23 [Sec. 50.2(a)4. table]
Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2(a)4. table]

Wastewater System Reserves

Debt Service Funds:

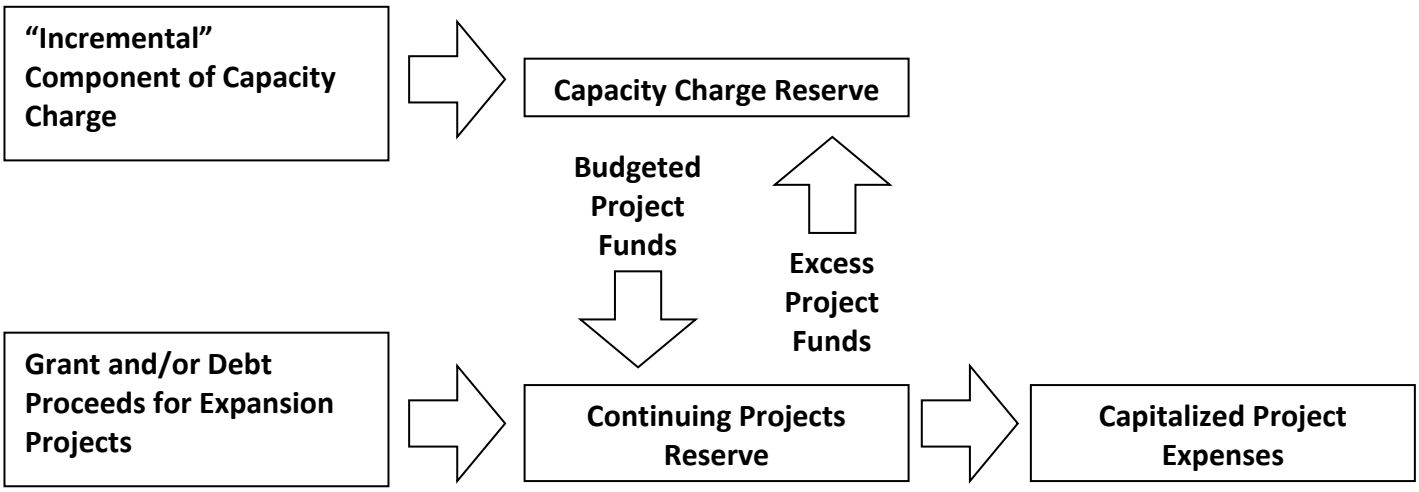


O&M, Replacement and System Upgrade Funds:



Per Ordinance No. 2025-02 Adopted 4/21/25 [Sec. 50.2(a)(4)table]
Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2(a)(4)table]

Capacity Expansion Funds:



(b) Fees and Charges. Each water and wastewater system ultimately shall be self-sufficient. Administrative costs incurred by the District shall be allocated to the each system in accordance with general practices and reimbursed to the general fund.

Interest earnings on cash held by the general fund for other funds shall be allocated to the respective funds annually.

In accordance with Section 160.3(g), all fees and charges for wholesale water and water related services shall be passed through to District customers by action of the Board of Directors.

(c) Debt – See Section 50.3, Debt Policy.

(d) Use of One-time and Unpredictable Revenues. One-time revenues, except when immaterial, should be allocated to the source of the revenue or refunded expenditure or, if not directly allocable, to the rate stabilization fund. Nonrecurring revenues shall not be used to initiate new programs which result in ongoing expenditures without specific notification to and approval by the Board of Directors.

Revenues which cannot be predicted, such as capacity fees, property taxes, and interest, should be forecast conservatively in the budget.

Per Ordinance No. 2018-16 Adopted 9/17/18 [Sec. 50.2(a)(4)table]
Per Ordinance No. 2008-01 Adopted 4/7/08 [Sec. 50.2(b)]

(e) Balancing the Operating Budget. It is the policy and goal of the District that the current annual operating expenditures shall be funded with current revenues, including but not limited to those provided by the Monthly Meter Service Charge and the Valley Center MWD Commodity Rate. Reserves can be used to provide budgetary funding for the purposes for which the reserves were established as detailed above.

The adopted operating budget shall be prepared on the accrual basis of accounting.

(f) Revenue Diversification. When rate increases are needed to cover District costs, other than wholesale pass through costs, consideration should be given to meeting at least 60% of the District's fixed operating expenditures with the Monthly Meter Service Charge revenue.

(g) Contingencies. Emergencies are addressed in Article 225.

(h) Authority for Budget Transfers. The General Manager is authorized to transfer up to $50,000 between the budget accounts without prior Board approval. Transfers above that amount must have prior Board approval.

Per Ordinance No. 2026-04 Adopted 4/20/26 [Sec. 50.2(e)]
Per Ordinance No. 2025-02 Adopted 4/21/25 [Sec. 50.2(h)]
Per Ordinance No. 2019-13 Adopted 9/3/19 [Sec. 50.2(e & f)]
Per Ordinance No. 2020-14 Adopted 11/16/20 [Sec. 50.2(h)]

Sec. 50.3 Debt Policy. This policy covers all debt issued by the District. The following Section 50.4 addresses further considerations for land-secured financing.

(a) Purpose. The District will consider the use of debt financing only for one-time capital improvement projects. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures.

New capital improvements will be financed primarily through capacity charges or developer agreements when benefits can be specifically attributed to users of the facility. Accordingly, capacity charges should be implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary facilities. Water capacity charges are set by Section 160.4(c) and wastewater capacity charges by Section 171.2.

(b) Limitations.

All debt issued by the District will comply with all applicable federal and State of California statutes and regulations.

The District's general credit will not be pledged for special assessment or Community Facilities District (CFD) bonds.

The objectives of meeting capital needs will be balanced with maintaining water and wastewater rates at acceptable levels. Debt financing will not be used if current revenues and reserves are available to fund the projects when needed.

In analyzing the District's debt capacity, the District should consider the following:

- Current debt service obligations (e.g. existing debt service requirements and debt service as a percentage of expenditures);
- Trends relating to the District's performance (e.g. revenues and expenditures, reliability of revenues expected to pay for debt service, and unrestricted fund balances);
- Measures of debt burden for the community (e.g. debt as a percentage of property value and overlapping debt);
- Measures of the tax and revenue base (e.g. projections of key economic variables, population trends, and utilization of services);
- Statutory or constitutional limitations affecting the amount of debt that can be issued; and
- Market factors affecting interest costs.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.3(b)]

(c) Types of Debt and Criteria for Issuance. The following types of debt will be considered as appropriate:

1. Enterprise-Revenue Bonds – For revenue generating capital improvements (e.g. water treatment plants, reservoirs, pump stations, and aqueducts) that are of a general benefit to the District's entire user base and are essential to enterprise activities. These bonds are secured by the enterprise revenues these improvements help generate.

2. Lease-Revenue Bonds – For non-revenue generating capital improvements (e.g. customer centers, corporate yards, and administration buildings) that provide a general benefit to the District. These bonds are secured by lease payments generated from usage of non-enterprise capital improvements.

3. Certificates of Participation – For both revenue and non-revenue generating capital improvements that benefit the District. Certificates of Participation represent undivided interest in either an installment purchase/sale or a lease. Repayment of Certificates of Participation is typically secured by enterprise revenues when revenue generating capital improvements are being financed or by a pledge of any legally available funds of the District when non-revenue generating capital improvements are being financed.

4. 1913/1915 Act Special Assessment Improvement Bonds – These bonds are often referred to as land-secured bonds because of the lien imposed on benefited property (1913 Act) which creates the ability to collect special assessment installments from property owners. The bonds are issued to finance capital improvements that benefit the property in a specifically defined area. The source of revenue securing the 1915 Act bonds is special assessment installment payments made by owners of benefited property within the "assessment district". No other source revenue stream is required to be pledged for repayment of the bonds. Only the beneficiaries of the public improvements are obligated for the repayment of the bonds and the District will not pledge its assets or revenues for these bonds. Additional considerations for land-secured financing are provided in Section 50.4.

5. Mello-Roos Community Facilities Act of 1982 Special Tax Bonds - These bonds are often referred to as land-secured bonds because they are secured by the levy of special taxes from property owners. No other source of revenue is required to be pledged for repayment of the bonds. Only the property within the CFD is obligated for the repayment of the bonds and the District will not pledge its assets or revenues for these bonds. Additional considerations for land-secured financing are provided in Section 50.4.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.3(c)5.]

Sec. 50.3 Debt Policy (Cont'd.)

(d) Debt Structure.

The project's useful life must exceed the term of the financing and the project revenues or resources must be sufficient to service the long-term debt.

The District may seek credit enhancement (such as insurance) on the advice of its financial consultants.

The debt documents should indicate under what circumstances the District can issue additional bonds or certificates of participation that share equal claims to the District's revenues pledged to pay debt service. The District's right to offer senior or parity bonds at a later time can result in a dilution of debt service coverage.

The District prefers traditional financing methods and will seek the advice of financial consultants before issuing variable rate bonds, zero coupon bonds, deep discount bonds, premium bonds, and derivatives including interest rate swaps and inverse floaters.

The redemption provisions of each bond or certificate of participation issue should be consistent with then current market conditions and preserve as much financial flexibility to the District as possible.

In order to enhance the credit quality of bond or certificate of participation issue shall have a capitalized reserve fund. Each such reserve fund will be required to be funded (with cash or an acceptable reserve surety or other credit facility) in an amount no less than the maximum amount legally permissible. Any reserve surety or other credit facility funding such a reserve fund will generally be required to be issued or guaranteed by an entity, the long term unsecured obligations of which are rated at least "A" by Moody's Investor Service or Standard & Poor's Ratings Service.

(e) Credit Objectives.

The District will aim to maintain debt-service at an affordable level so as to preserve budgetary flexibility and credit quality of the District.

The District may seek one or more credit ratings on the advice of its financial consultants, and will strive to maintain any ratings received throughout the term of the rated debt issuance. The District will provide financial information to the rating agencies upon request.

(e) Credit Objectives (Cont'd.)

The District will comply with all covenants set by debt instruments. These may include financial and debt ratios, which will be considered in future debt issuances. Such covenants may require the District to maintain at least a minimum level of debt-service coverage on a fiscal-year basis. The District will seek to permit the use of reserves in meeting this coverage, but will also need the capacity to implement rate increases when needed to comply with debt covenants and rating agency requirements.

(f) Methods of Sale.

A public offering is the issuance of debt securities to the general market. In a public offering, an underwriter purchases the securities from the District and sells the securities to a number of investors. The District is essentially borrowing the money from a number of retail and institutional investors and repays the debt according to a predetermined time interval, generally semi-annually, at a set interest rate with options to prepay the debt. In a public offering, an Official Statement is prepared and the District is obligated to provide annual disclosure of certain financial and other material information to the investors. A beneficial feature of the public offering approach is that it allows the District to take advantage of the yield curve. The yield curve reflects the relationship between time and risk. The longer the debt, the greater the borrowing cost to compensate the lender for risks associated with time. So, a typical debt structure will have lower coupons in the earlier maturities and higher coupons in the later maturities.

Bonds issued under this policy may be sold through competitive or negotiated sale as determined by the District, which will consider recommendations from its financial advisors in selecting a method of sale.

In a private placement, the District markets its securities directly to investors, without utilizing the services of an underwriter. In most instances, private placements are with commercial banks or institutional investors. Private placements frequently are undertaken when the debt issue is smaller and economies of scale are such that a direct offering is more efficient. Often investors will require slightly higher interest rates on issues sold through private placement but will pay lower costs of issuance. Once again, the repayment schedule is predetermined and the District may have the option to prepay its debt. Unlike a public offering, in a private placement, the District does not need to prepare an Offering Statement and may not be required to provide a continuing disclosure.

(f) Methods of Sale (Cont'd.)

Some of the key points in choosing between public sale and private placement are:

- Amount to be borrowed – Private placements are typically for amounts smaller than would be in public offerings.
- Costs of Issuance – Costs of issuance associated with private placements are lower, but this may be offset by higher interest rates.
- Term of repayment – Private placements typically have shorter final maturity than public offerings and repayment schedules can be monthly, quarterly or semi-annually.

(g) Financing Team Participants. Debt financing requires the use of Bond Counsel, Financial Advisor, Underwriter or Placement Agent or Remarketing Agent, and Fiscal Agent/Trustee, as well as the inclusion of Underwriter's Counsel or Disclosure Counsel. Providers of letters of credit, liquidity supports and other types of credit enhancements may also be required which may expand the number of financing team participants.

The procurement of professionals and consultants by the District is set forth in Article 135. Because of the benefits of consistency in managing financial matters, the District prefers to establish professional relationships that will endure through multiple debt issuances. Therefore, although there may be periods when the services of some of the financing team consultants are not required, the District has determined that some of these services will still be ongoing professional services as established by Section 135.3.

(h) Refunding of Debt. The principal objective of the District in refunding an outstanding debt issue is to secure a public benefit which may include an interest rate savings that will result in both an actual and present value savings to the property owners or rate payers responsible for paying debt service on the bonds. The actual value of the savings must significantly exceed the costs of the refunding and any increase in the principal amount of bonds that will be outstanding as a result of the refunding.

Sec. 50.3 Debt Policy (Cont'd.)

(h) Refunding of Debt (Cont'd.)

Refunding of a particular financing must, at minimum, be structured to reflect the following:

1. The refunding bonds shall mature on a date not later than the date on which the bonds being refunded (the "prior bonds") mature.
2. Annual debt service savings to be realized from the refunding are to be apportioned equally over the remaining life of the refunding bonds.
3. The prior bonds (or any portion thereof being refunded) are to be legally defeased in accordance with the indenture, fiscal agent agreement, or resolution authorizing their issuance. If there is no provision for their defeasance, a defeasance escrow shall be established that will contain only cash or direct obligations of the United States.
4. A refunding that results in an increase in the principal amount of bonds outstanding must consider prepayments that have been received prior to the refunding.

The District will also consider refunding an outstanding financing to address unacceptable or unworkable bond covenants, debt service schedules, bond maturities, tax issues or bond security issues.

(i) Capital Planning and Financial Planning.

The District's primary capital planning document is the Water Master Plan. The Master Plan sets forth the system improvements and capital facility replacements needed in order to maintain an acceptable level of service to the District's customers. The capital improvement program in this document is used to prepare the Long Range Financing Plan. The financial projection model used in the Long Range Financing Plan shall be used to evaluate future debt issuances, including the estimated time frame and the amount needed to fund scheduled projects, projected reserve fund balances, and projected cash flow available for capital improvements. Similar processes are used for the District's wastewater operations.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.3]

(j) Internal Controls for Debt Administration.

Administration of Bond Proceeds and Funds - The District shall request or review the balances of various bond-generated or related funds held either directly at the District or by the Bond Trustee at least twice annually. Timely expenditure, to the extent possible, of bond proceeds shall be monitored and ensured. Any surplus funds identified from investment earnings or unspent items shall be applied to pay debt service, if legally permissible.

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.

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

Continuing Disclosure – The District will periodically confirm that all debt issued is in compliance with Rule 15c2-12(b)(5) by required filing as covenanted in each debt issue's Continuing Disclosure Agreement. In the event that outside consultants are used to create or make filings, an internal system shall be established to review and confirm filings made.

Record Keeping – Both physical and electronic copies 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, bond legal documents/transcripts, resolutions, trustee statements, and other documents material to the financing.

Arbitrage Rebate – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The District shall ensure that all bond proceeds and investments are tracked in a manner that facilitates accurate calculation; if a rebate payment is due, such payment shall be made in a timely manner.

Policy Review – This policy should be reviewed periodically by the Board and updated as needed.

Oversight Responsibility and Implementation Procedures. – The General Manager shall be responsible for providing oversight for compliance with the aforementioned internal controls. The General Manager may establish such administrative procedures as he/she deems necessary to ensure compliance with the internal controls.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.3]

(k) Glossary.

Accrued Interest: Interest earned on a bond but not yet paid by the District.
Ad Valorem Tax: A tax calculated on the assessed valuation of property.
Amortization: Periodic payments of principal owed on a debt.
Arbitrage: The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn or retain arbitrage by issuing tax-exempt debt is severely limited by federal tax law.
Assessed Valuation: The appraised worth of property as set by the County tax assessor for purposes of ad valorem taxation. Increases in assessed valuation for residential property are limited by the California constitution.
Basis Point: 1/100 of 1 percent.
Bond: A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.
Bond Counsel: An attorney retained by the District to give a legal opinion concerning the validity and tax exempt status of the securities.
Call: The redemption of a bond by the District before maturity in accordance with the terms of the bond.
Certificate of Participation: A financial instrument representing an undivided interest in payments such as an installment purchase or a lease.
Competitive Sale: The sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost. (See also Negotiated Sale.)
Continuing Disclosure: The requirement by the Securities and Exchange Commission for the District to provide current financial information on the District's debt issues to the information repositories for access by the general marketplace.
Costs of Issuance: The costs incurred by the District, including but not limited to financial advisory and bond counsel fees, printing and advertising costs, rating agencies fees, and other expenses incurred in marketing the debt issue.
Coupon Rate: The annual rate of interest paid on the bond's face value. Credit Risk: The risk to an investor that the District will default on a security.
Debt Burden: The ratio of outstanding debt to property value, including a proportionate share of overlapping debt from other public agencies.
Debt Service: The amount necessary to pay principal and interest requirements on outstanding debt for a given year.
Default: A payment default is the failure to pay principal or interest in full or on time. A technical default may result from a failure to abide by certain covenants even if payments are made when due.

(k) Glossary (Cont'd.)

Defeasance: Providing for payment of principal and interest on debt through the first call date following such payment or scheduled maturity, including any premium, in accordance with the terms of the debt. Usually involves an irrevocable escrow.

Derivative: Financial instrument created from, or whose value depends upon, one or more underlying indexes or securities.

Discount: The difference between a debt's face value and the price for which it is sold when the latter is less than face value.

Enterprise Activity: A revenue-generating activity. The District's activities are enterprise activities.

Financial Advisor: A consultant who advises the District on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms, and bond ratings.

Fiscal Agent: An agent of the District with the responsibility for timely payment of principal and interest to the bond holders.

Insurance: A type of credit enhancement whereby an insurance company indemnifies an investor against default by the District.

Indenture: A contract between the District and a trustee stipulating the characteristics of the financial instrument, the District's obligation to pay debt service, and the remedies available to the trustee in event of default.

Lease: An obligation to make payments in exchange for the use of certain property.

Lease Revenue Bonds: Bonds that are secured by an obligation to make annual lease payments.

Letter of Credit: A bank credit facility whereby a bank will honor the payment of the District's debt, in the event the District is unable to do so, thereby providing an additional source of security for bondholders for a predetermined period of time.

Negotiated Sale: A sale of securities in which the terms are determined through negotiation between the District and the purchases, typically an underwriter, without competitive bidding. (See also Competitive Sale.)

Official Statement: A document published by the District that discloses material information on a new issue of municipal securities.

Original Issue Discount Bonds: Bonds sold at a substantial discount from their face value at the time of the original sale.

Overlapping Debt: The legal boundaries of local governments often overlap. Overlapping debt represents the proportionate share of debt that must be born by one unit of government because another government with overlapping authority issued its own debt.

(k) Glossary (Cont'd.)

Par: Face value of a bond.
Premium: The excess of the price at which a bond is sold over its face value.
Principal: The face value or par value of a debt instrument.
Refunding: A procedure whereby the District refinances an outstanding bond issue by issuing new bonds. A refunding prior to the date on which bonds become due or callable is an Advance Refunding.
Revenue Bond: A bond which is payable from a specific source of revenue and to which the full faith and credit of the District is not pledged.
Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.
Special Assessments: A charge imposed against property that receives a special benefit by virtue of some public improvement.
True Interest Cost (TIC): A method of calculating the overall cost of a financing that takes into account the time value of money. It is the rate of interest that will discount all future payments so that the sum of their present value equals the issue proceeds.
Underwriter: The term used to refer to the firm that purchases a securities offering from the District.
Underwriter's Counsel: An attorney retained by the underwriter to represent its interests.
Yield: The rate of annual income return on an investment, expressed as a percentage. Net Yield or Yield to Maturity is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.
Zero Coupon: A bond that does not pay interest periodically. Investors receive interest on the scheduled principal maturity date.

Sec. 50.4 Land-Secured Financing Policy. This policy covers the use of land-secured financing issued in the name of the District to finance authorized facilities to serve specific benefit areas. Land-secured financing includes debt secured by revenues from both assessment districts and community facilities districts ("CFDs"). All land-secured financings shall be subject to each of the provisions in Section 50.4 unless the Board of Directors determines that it is in the public interest to waive any such provision.

The provisions of Section 50.3, which apply to all debt financing, also apply to land-secured financings unless in conflict with this Section 50.4.

The District has determined land-secured financings will be limited to the following terms, which are described in greater detail elsewhere in this section:

1. Only water and wastewater facilities that address a public need and provide a public benefit and will be owned by the District will be financed.
2. The District will pursue the most cost-effective form of financing for any land-secured financing undertaken, including pursuing subsidized loans from the State of California, if any such loans are feasible and available.
3. The District will not be the lead agency in a joint community facilities agreement but may consider cooperating with other government agencies agreements if the District determines that it is the best interest of the District's current and future customers.

The following terms apply to any "landowner initiated" land-secured financing. For the purposes of this Section, a "landowner initiated" land-secured financing shall be considered any proposed CFD or assessment district that is primarily undeveloped at the time of the initiation of legal proceedings to form the CFD or assessment district.

4. The minimum principal amount of any "landowner initiated" land-secured financing shall be $3,000,000.
5. Unless otherwise approved by the Board of Directors, financing will not exceed 75% of the engineer's estimate for the water and wastewater facilities.
6. Funding shall be on an "acquisition basis" only and no proceeds shall be paid or reimbursed until the improvements are completed and in use.

Per Ordinance No. 2019-14 Adopted 12/16/19 [Sec. 50.4]

Sec. 50.4 Land-Secured Financing Policy (Cont'd.)

(a) Purpose. The District will consider the use of fixed lien special assessment districts ("assessment districts") and CFDs to assist financing water and wastewater facility capital improvements required for the development of commercial, industrial and/or residential property. The minimum principal amount of any "landowner initiated" land-secured financing shall be $3,000,000.

The District may, in its sole discretion, cooperate with other government agencies in their community facilities districts formed or to be formed by such agencies to finance public improvements to be owned by such agencies and by the District, if the District determines it will be in the best interests of the District's future ratepayers. The District will not be the lead agency in any joint community facilities agreement.

Projects financed under this Section must address a public need and provide a public benefit.

Facilities which are, upon completion, owned, operated or maintained by the District shall be considered the only public facilities eligible to be financed by an assessment district or CFD. No exceptions will be made for facilities to be owned, operated, or maintained by private utilities.

As provided in section 50.4(j)2, debt proceeds from landowner initiated" land-secured financing will be released to the developer on an acquisition basis.

(b) Initiation of the Financing.

1. Application. The proponent of a project wishing to apply for land-secured financing must obtain and submit the required application to the District.

   Prior to accepting an application for a land-secured financing, the proposed project must be reviewed and commented on by the District's Engineer, Director of Finance, Bond Counsel, and Financial Advisor. This review will include a finding as to why this form of financing is preferred over other funding options such as reimbursement agreements or direct developer financial responsibility for the construction of the improvements.

2. Processing and Formation Fees. All District and consultant costs incurred in the evaluation of applications and the proceedings to form an Assessment district or CFD and issue bonds, if applicable, will be paid by the applicant by advance deposit with the District of moneys sufficient to pay all such costs.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(b) Initiation of the Financing (Cont'd.)

2. Processing and Formation Fees (Cont'd.)

Each application for the formation of an assessment district or CFD shall be accompanied by an initial deposit in an amount to be determined by the Director of Finance to be adequate to fund the evaluation of the application and begin the proceedings to form the CFD or assessment district and issue bonds, if applicable, therefor. If additional funds are required to pay required pre-formation costs, the Director of Finance may make written demand upon the applicant for such additional funds and the applicant shall deposit such additional funds with the District within five (5) working days of the date of receipt of such demand. Upon the depletion of the funds deposited by applicant for pre-formation costs, all proceedings shall be suspended until receipt by the District of such additional funds as the Director of Finance may demand.

The deposits shall be used by the District to pay for costs and expenses incurred by the District incident to the evaluation of the application and proceedings for the formation of the assessment district or CFD and the issuance of bonds, if applicable, therefor, including, but not limited to, legal, assessment or special tax consulting, engineering, appraisal, market absorption, financial advisor, administrative and staff costs and expenses, required notifications, and printing and publication costs.

The District shall refund any unexpended portion of the deposits upon the occurrence of one of the following events:

A. The formation of the CFD or assessment district and the issuance of the bonds, if applicable, therefor;
B. The formation of the CFD or assessment district or the issuance of the bonds is disapproved by the District's Board of Directors; or
C. The proceedings for the formation of the CFD or assessment district and the issuance of bonds are abandoned at the written request of the applicant.

3. Petition for Formation. Unless the property has a single ownership, the District will expect that the applicant for an assessment district or CFD will be able to secure signatures from a sufficient number of landowners within the proposed CFD or assessment district on a petition, the form of which is to be supplied by Bond Counsel. Prior to commencing CFD or assessment district proceedings, a minimum 60% of the property owners must be in favor of forming the CFD or assessment district.

(b) Initiation of the Financing (Cont'd.)

4. Selection of Financing Team. The District shall select the Bond Counsel, Financial Advisor, Underwriter or Placement Agent or Remarketing Agent, and Fiscal Agent/Trustee. It will require the retention of Disclosure Counsel, as appropriate. Providers of letters of credit, liquidity supports and other types of credit enhancements are also subject to the approval of the District.

   In the case of an assessment district, the District shall select an Assessment Engineer to determine a fair and reasonable method to allocate the assessment required to meet debt service on the bonds and other related expenses of the proposed assessment district.

   In the case of a CFD, the District shall select a Special Tax Consultant to develop the Rate and Method of Apportionment and special taxes and methodology governing the levy of special taxes within any proposed CFD.

(c) District Active Role. Even though CFD or assessment district bonds are limited obligations of the District, the District will play an active role in managing CFDs or assessment districts. As noted above, any costs incurred by the District for formation of the CFD or assessment district, or in connection with the issuance of bonds, will be paid for from amounts deposited by the applicant, and the District will select and retain the District's financing team.

District staff, in consultation with its financing team, will review and comment on all CFD or assessment district bonds proposed to be issued by the District. It will consider whether the proposed debt issue is consistent with these Policies. Staff will also comment on the economic viability and credit worthiness of the proposed debt issue. In performing its function, staff may, in its sole discretion, review a matter more than once and retain additional consultants to assist in its review. The cost of such consultants is to be borne by the proponent of the debt issue.

A written summary of staff's review of the proposed financing is to be prepared and submitted to the Board of Directors for deliberation when it considers the financing.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(d) Economic Viability. In evaluating the application and the proposed debt issue, the District may require any or all of the following to determine the economic viability of the proposed project and the timing of the sale of any bonds or series thereof.

1. Absorption and Price Point Studies. The District may require a market absorption study for any CFD or assessment district proposed to include new development. In any case, the District shall retain, at the applicant's sole expense but subject to reimbursement as provided for herein, a consultant to prepare a report to verify or establish the projected market absorption for and the projected sales prices of the properties proposed to be included within the CFD or assessment district. If a market absorption study is conducted, the appraiser shall utilize the conclusions of the market absorption study in conducting the appraisal of the properties with the proposed assessment district or CFD shall justify, to the satisfaction of the District's General Manager, why such conclusions were not utilized in conducting such appraisal. If a price point study is conducted, its conclusions shall be utilized in confirming the proposed district is in compliance with the Maximum Burden requirements in section (f).

2. Appraisal and Value-to-Lien Ratio. The District requires, for residential projects, an overall minimum land value-to-lien ratio of 4 to 1 at the time of land-secured bond issuance. The lien component of the ratio is to include all debt represented by any overlapping community facilities district or assessment district obligations affecting the property. The District will also review the land value to lien ratios by individual parcel and/or grouping of parcels within the boundaries of the district to determine the security of the debt issue.

   A current appraisal will be required of the property that comprises the CFD or assessment district against which a lien will be placed to secure the bonded indebtedness to be incurred. The appraisal will be made by an appraiser retained by the District. It is to be made consistent with the guidelines set forth herein.

   a. Definition of Appraisal. An appraisal is a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(d) Economic Viability (Cont'd.)

2. Appraisal and Value-to-Lien Ratio (Cont'd.)

b. Standards of Appraisal. Property value may be based on either an appraisal or on assessed values as indicated on the County assessor's tax roll. All appraisers shall be selected by the District, and the appraisal shall be based on standards determined applicable by District staff and consultants. The appraisal shall be prepared by a certified MAI (Member, Appraisal Institute) appraiser. The Appraiser shall not have any interest in the property. The appraisal or appraisal update letter must be dated within three months of the date the bonds are issued. The public lien amount shall include the bond issue currently being sold plus any other public indebtedness outstanding and secured by a fixed lien on taxable or assessable property within the CFD or assessment district. The definitions, standards, and assumptions in the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation ("USPAP"), shall be followed. The California Debt and Investment Advisory Commission (CDIAC) guidelines may also be considered as a basis for the appraisal where they do not conflict with the USPAP.

3. Financial Information Required of Applicant. Both at time of application, if required in the sole discretion of the General Manager, and prior to the sale and issuance of any bonds, the applicant for a CFD or an assessment district bond issue, and all property owners within the boundaries of the proposed CFD or assessment district responsible for twenty percent (20%) or more of the debt service on the bonded indebtedness to be incurred, shall provide financial statements (preferably audited) for the current and prior two fiscal years and a title report for all properties which they own, control, or intend to have any real property interest. The applicant shall also provide all other financial information related to the proposed project that may be requested by the District.

For all CFD or assessment district bond issues, the applicant and other participants or related entities in the proposed district who will be responsible for twenty percent (20%) or more of the debt service or the bonded indebtedness to be incurred may be required to provide other financial information regarding themselves and the financial viability of the proposed project to be financed. This requirement will be adjusted appropriately if the proposed debt issue is to be rated or insured or otherwise guaranteed by an appropriate credit enhancement.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]
Per Ordinance No. 2019-14 Adopted 12/16/19 [Sec. 50.4(d)3]

Sec. 50.4 Land-Secured Financing Policy (Cont'd.)

(d) Economic Viability (Cont'd.)

3. Financial Information Required of Applicant (Cont'd.)

Subsequent to the sale and issuance of the bonds, federal and state statutes and/or regulations may require the preparation of periodic and annual reports. The applicant and all major participants in the project will be required to provide that information needed to complete such statutorily required reports. In addition, the District, responsible for the administration of the bonds, may also require information of the applicant or the major participants in the project to satisfy reporting demands of rating agencies or institutional buyers.

4. Land Use Approvals. For land-secured financings the District will require, at a minimum, that the proposed project must:

a. be approved by the County;
b. have had the service levels for the required public facilities established or the exact public facilities required for the project identified; and
c. have completed an appropriate environmental review of the proposed project that addresses all of the public facilities that are to be constructed through the proposed financing.

5. Equity Participation by Applicant and Major Participants. In evaluating the proposed debt issue, the District will consider the equity participation of the applicant and the major participants in the proposed project. At the time the application for the proposed financing is received, an analysis will be made as to the equity interest that the applicant has in the proposed project, if required by the General Manager. Unless otherwise approved by the Board of Directors, "Landowner initiated" land-secured financings will not exceed 75% of the engineer's estimated cost for the water and wastewater facilities. In addition to the financed project, the applicant will also be required to fund certain in-tract infrastructure and may be expected to contribute other public improvements and right-of-ways related to the proposed project.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]
Per Ordinance No. 2019-14 Adopted 12/16/19 [Sec. 50.4(d)5]

(e) Apportionment of Assessment District Lien. Assessment district bonds are "limited obligations" whose primary repayment is from assessment installment payments from property owners of specially benefited property and secured by a fixed assessment lien.

The apportionment of a special district assessment lien among the parcels comprising the proposed assessment district shall be based upon the direct and special benefit each parcel receives from the public facilities to be financed.

The following criteria will be applied in evaluating the revenue stream that will be supporting a proposed assessment district:

1. The annual assessment shall be adequate to include an amount necessary to pay for the expenses incurred by such assessment district in the levy and collection of the assessment and the administration of the bonds and the assessment district.

2. All developed and undeveloped property within any assessment district which is not otherwise statutorily exempt from the levy of the assessment shall bear its appropriate share of the assessment district's aggregate obligation from the date of formation of the assessment district consistent with the other goals and policies set forth herein.

3. A partial and/or total prepayment option shall be provided for assessments. The property owner will pay the cost of determining and processing the prepayment.

4. The annual assessment levy on each parcel shall be approximately equal each year, except that a variation for administrative expenses will be allowed as statutorily permitted.

(f) Apportionment of CFD Special Taxes

The following criteria will be applied in determining the special taxes in the Rate and Method of Apportionment for a proposed CFD:

1. The annual special taxes shall be adequate to include an amount necessary to pay for the expenses incurred by such district in the levy and collection of the special taxes and the administration of the bonds and the CFD.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

Sec. 50.4 Land-Secured Financing Policy (Cont'd.)

(f) Apportionment of CFD Special Taxes (Cont'd.)

2. All developed and undeveloped property within any CFD shall bear its appropriate share of special tax burden consistent with the other goals and policies set forth herein.

3. Special taxes on residential property shall be determined on a reasonable basis based on either lot size or square footage of homes.

4. A partial and/or total prepayment option shall be provided for property owners. Property owners will pay the cost of determining and processing the prepayment.

5. The annual special tax levy on each parcel in the same tax classification shall be approximately equal each year.

6. The special tax may escalate each fiscal year by an amount not to exceed 2% per fiscal year.

7. A backup special tax shall be provided for which, in the determination of the District, is sufficient to cover any potential changes in expected property usage which may result in lower expected special tax revenues.

(g) Maximum Burden. It is the policy of the District that the maximum annual special taxes or assessment installments applicable to any parcel used for residential purposes shall not exceed one percent (1%) of the initial projected sales price of newly developed properties to residential homeowners. As a distinct and separate requirement, the total annual taxes, assessments, and special taxes ("overlapping debt") shall not exceed two percent (2%) of such initial sales price.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]
Per Ordinance No. 2019-14 Adopted 12/16/19 [Sec. 50.4(f)3-6]

(h) Terms and Conditions of Bonds. Bonds shall be issued in accordance with all statutory requirements.

The terms and conditions of any bonds issued by the District for any CFD or assessment district, including without limitation the sizing, timing, term, interest rates, discount, redemption features, flow of funds, investment provisions and foreclosure covenants shall be established by the District. Each bond issue shall be structured to adequately protect bond owners and to avoid negatively impacting the bonding capacity or credit worthiness of the District. Unless otherwise approved by the Board of Directors, the following shall serve as minimum bond requirements:

1. Limited Obligations of the District. Neither the faith, credit, nor taxing power of the District shall be pledged to the payment of the bonds. The sole source of revenue for the payment of the bonds shall be the special taxes or assessments, capitalized interest, if any, and moneys on deposit in the reserve fund established for such bonds.

2. Structuring of Debt Service. A bond issue is to be structured with level debt service, or as otherwise permitted in these Policies, and to mature within thirty (30) years of the date of sale of the initial series of bonds issued.

3. Redemption Provisions.

   a. Optional Redemption. It is the preference of the District that the bonds will have redemption provisions that provide that the maximum premium to be paid will not exceed three percent (3%), the term for which any premium is to be paid will not exceed ten (10) years, and in the eleventh year, the bonds can be redeemed without premium.

   b. Unexpended Construction Proceeds. The District will seek to evaluate redemption features, if cost-effective, that will allow the District to use unexpended proceeds to redeem bonds at par upon completion of the public facilities to be financed, or at the District's sole discretion, upon determining that all or a portion of the public facilities cannot be constructed, to pay debt service on the bonds.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(h) Terms and Conditions of Bonds Cont'd.)

4. Reserve Funds. The District will require that a reserve fund, subject to IRS maximum limitations, in cases where undeveloped property is projected to be responsible more than 15% of the expected debt service.

5. Capitalized Interest. In CFD or assessment district bond issues, the District is concerned with the degree to which property ownership, and therefore the responsibility for payment of the annual special taxes or assessment installments, is concentrated in one or more individuals or entities. Capitalized interest is considered a means by which the District can assure itself and bond owners that debt service obligations will be met during the initial year(s) of development. However, the amount of capitalized interest should be balanced against the annual levy on future landowners.

   The amount of capitalized interest that will be required to be funded from bond proceeds in a particular land-secured financing shall be based on the degree to which the property ownership is concentrated in one individual or entity. Whenever one individual or entity whose land holdings within the CFD or assessment district is responsible for ten percent (10%) or more of the debt service on the bonds, then eighteen (18) months of capitalized interest, or an amount determined by the financing team to be adequate, will be required.

6. Foreclosure Covenant. The District will include a bond covenant dealing with judicial foreclosure. The foreclosure covenant will be created to recognize the needs of the financial markets, taking into consideration the practical timing and cost aspects of compliance.

   The District may require the proponents of the CFD or assessment district to enter into an agreement with the District to be individually and jointly responsible for the cost of any foreclosures which the District determines are necessary in regard to the bonds. The District may, at its option, retain an attorney to prosecute the foreclosures in a timely manner in the name of the District and the proponent shall agree to be responsible for all costs of such foreclosures. If the District approves a pass through of the obligation to the purchaser of an individual lot, the proponents shall be relieved of their obligation under such agreement for such lot.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

Sec. 50.4 Land-Secured Financing Policy (Cont'd.)

(h) Terms and Conditions of Bonds Cont'd.)

7. Underwriter and Original Issue Discount/Premium.

Bonds issued under this policy may be sold through competitive or negotiated sale as determined by the District, which will consider recommendations from its financial advisor in selecting a method of sale.

The District staff and its Financial Advisor will review all underwriting proposals and determine what serves the best interest of the District.

8. Timing of Bond Sale. No resolution authorizing issuance and sale of bonds or any series of bonds will be considered by the Board of Directors until plans and bid specifications for the public facilities to be financed by the bonds are final and all required approvals associated therewith have been received. However, if the debt issue can be structured in more than one series and if the statutory authority pursuant to which the CFD or assessment district has been established allows, and the Board of Directors finds that the proposed public facilities have regional and/or other significant public benefit, the initial bond series may finance the design, engineering and preparation of the bid specifications for the public facilities.

(i) Credit Enhancements.

Credit enhancements, if required by the District, are utilized either to improve the credit worthiness of the proposed financing or to insure that the debt service requirements of the proposed debt issue are met in a timely manner. It is important to the District to minimize the possibility of a debt issue being placed in default and to insure that sufficient cash flows are available to meet debt service requirements.

The District will examine carefully the provider of the required credit facility and the form that the credit facility will take. The rating of the provider, as well as the provider's capitalization, are of principal concern, and a reduction in either during the term of the credit facility to a level unacceptable to the District may require that an alternate credit facility be secured from an acceptable provider. The District reserves the right, in its sole discretion, to determine the acceptability of both the credit facility and its provider.

The nature and terms of the credit facility will vary with regard to the type of financing for which it is being required.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(i) Credit Enhancements Cont'd.)

The District may, in its sole discretion, require additional credit enhancements for a particular land-secured financing if it is determined that they are needed to bring the credit worthiness of the proposed debt issue to a level that is acceptable to the District.

1. Policy on Credit Enhancement. If a person or persons or related entities owning property within the proposed boundaries of a CFD or assessment district will be responsible for payment of 33% or more of the total annual special taxes or assessment to be levied, then said property owner or owners may be required to provide a Letter of Credit or other approved credit enhancement having the following:

   a. The credit facility will name the District or the CFD or assessment district as beneficiary.

   b. The face amount of the credit facility will be equal to the sum of the gross debt service on the bonds allocable to the person's or entity's property for the current fiscal year and the succeeding fiscal year.

   c. The credit facility will have a term of one year and be subject to annual renewal or call.

   d. The credit facility may be drawn upon should there be a default by the property owner in the timely payment.

   e. The face amount of the credit facility may be drawn should the credit facility not be timely renewed or a substitute credit facility acceptable to the District timely provided, or if the rating or the capitalization of the provider fall to a level not acceptable to the District.

   f. The face amount of the credit facility will be subject to periodic adjustments should the property owner sell or transfer portions of the property to unrelated third parties and will terminate when his, her or its property holding has an annual special tax or assessment below 33% of the total annual special tax or assessment.

   New property owners responsible for 33% or more of the total annual special taxes or assessment will be required to provide a substitute Letter of Credit or other approved credit enhancement under the same terms and conditions as described herein before the original letter of credit or other approved credit enhancement may be reduced or released.

   When a Letter of Credit or other approved credit enhancement is required, the Letter of Credit or other approved credit enhancement must be provided on or before the date of the pre-pricing of the bonds, whether or not capitalized interest is funded from bond proceeds. Notwithstanding the foregoing, an irrevocable credit commitment, commitment letter, or in-lieu Letter of Credit guarantee must be provided prior to the approval of the issuance of the bonds by the Board of Directors of the District.

(j) Administration. All matters related to administration of issued bonds are to be handled consistent with the terms of the trust indenture or fiscal agent agreement pursuant to which the bonds were sold. Administrative responsibilities with regard to the bonds and the project being financed by bond proceeds will vary depending upon the nature of the project.

1. Bond Administration. Bonds are issued pursuant to bond indentures or fiscal agent agreements which identify the Treasurer of the District to have administrative responsibility for these debt issues. This includes, among other duties, the computation and enrollment of the annual taxes or assessment, payment of principal and interest on the bonds, initiation of foreclosure proceedings with regard to delinquent parcels, and management and investment of monies held in all funds and accounts created by the bond indentures or fiscal agent agreements.

2. Reimbursement. The public facilities are to be constructed as public works project consistent with all applicable statutory requirements. Design engineering, project management, and construction contract administration are to be provided by the financing proponent but subject to oversight and approval by the District. The public facilities must meet all design and construction requirements and standards as may be established by the District and in accordance with current State laws.

   At the time a "landowner initiated" land-secured financing CFD or assessment district is established, the proponent of the financing shall enter into an acquisition funding agreement that will identify the public facilities to be constructed and the amount to be paid for each facility. Upon completion of the entire project or a Discrete Component, the CFD or assessment district will acquire the completed facilities consistent with the terms of the agreement.

   Public improvements proposed to be acquired from the proceeds of bonds or taxes shall not be paid for until all improvements for a particular Discrete Component are completed, bonds are sold if applicable, and the facilities are useable by the public.

   A "Discrete Component" shall be generally defined as a particular module or street with independent usage including all improvements. The District Engineer shall have the authority and discretion to establish one or more separate Discrete Components consistent with the definition thereof for any CFD or assessment district. Each Discrete Component established by the District Engineer for any CFD or assessment district and all improvements included within each such Discrete Component must be described in the acquisition and financing agreement for such CFD or assessment district. Any deviation of the project definition shall be approved by the District Engineer.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(j) Administration Cont'd.)

2. Reimbursement (Cont'd.)

If the District Engineer has established more than one Discrete Component for any CFD or assessment district, the District Engineer may authorize the partial release of funds up to ninety percent (90%) of the cost of such improvements to pay for the acquisition of each Discrete Component when such Discrete Component is useable to the public. Ten percent (10%) of the cost of the improvements shall not be paid for until acceptance by the District and District Engineer or his or her designee has certified the final cost of such improvements.

To the extent legally permissible, the District will reimburse the owner, from proceeds, the costs related to the CFD or assessment district; i.e., water and wastewater facilities design costs, preliminary district formation costs, and plan check costs.

3. Construction. The Engineer of the District at the time of receiving the application for a land-secured financing may determine that the public facilities to be financed are to be constructed as a public works project with project management and construction contract administration services provided by the District. If this determination is made, then, in the Resolution of Intention establishing the CFD or assessment district, the District will find that it is not in the public interest to allow the property owners within the CFD or assessment district to enter into a contract to construct the public facilities.

4. Notice to Future Property Owners. Property owners for all CFD or assessment districts will be required to provide for full and complete disclosure of such CFD or assessment district applicable to the property to prospective purchasers. The disclosure must include all of the following in addition to such other provisions as may be required by the Act, the District's Administrative Code, bond documents, or as the applicant may deem necessary:

A. Provide full disclosure of the proposed CFD or assessment district and all other assessment and special tax financing applicable to the property (whether imposed by the District or any other public agency) including the maximum annual payment, monthly payments, principal, average interest rate, duration of payments, list of facilities to be funded, and the method of spread in easily understood terms.

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]

(j) Administration Cont'd.)

4. Notice to Future Property Owners (Cont'd.)

B. List the amount of the payments in all sales brochures, all advertising and all purchase documents adjacent to the sales price of the property and in the same size type.
C. Give prospective purchasers an option to have the obligation lien discharged prior to the close of escrow or to assume the obligation by a pass through as a part of the sales price of the house.
D. Specify in all disclosure documents the name, title, telephone number and address of a representative of the District as provided to the applicant who may be contacted by any prospective purchaser of property.

The disclosure program shall be designed by the District in consultation with the District's financing team and the property owners. The disclosure program will be subject to approval by the Board of Directors. The District's goal is to provide complete and concise disclosure to any subsequent property purchaser.

Evidence of signed disclosure statements are required to be provided by developers and/or merchant builders.

5. Annual Reporting. The District will prepare and file with the state and federal agencies all statutorily required reports.

Staff shall prepare and submit annually to the Board of Directors a report on the status of the respective debt issues. The occurrence of technical default, or the likelihood thereof, is to be reported immediately to the Board of Directors. For the purposes of these Policies, the term "technical default" shall mean the occurrence of an event or omission that may result in the inability to make timely payment of debt service on the financing or would jeopardize the tax exempt status of the financing (e.g., the need to draw on a reserve fund, the insolvency or bankruptcy of a principal property owner, the insolvency of a provider of a credit enhancement, or insufficient funds to make a required rebate payment.)

Per Ordinance No. 2018-01 Adopted 2/5/18 [Sec. 50.4]