



DATE: May 30, 2017

TO: Budget and Rates Committee  
Dean Efstathiou, Chair  
Jerry Gladbach, Vice Chair  
Tom Campbell  
Bob DiPrimio  
R.J. Kelly

FROM: Valerie L. Pryor   
Assistant General Manager

A meeting of the Budget and Rates Committee is scheduled for **Monday, June 5, 2017 at 5:30 PM** in the Training Room at the Rio Vista Water Treatment Plant.

### MEETING AGENDA

1. Public Comment
2. \* Recommend Approval of Resolutions Setting Castaic Lake Water Agency Tax Rate for FY 2017/18 and Requesting Levy of Tax by Los Angeles County and Ventura County
3. \* Recommend Approval of a Resolution Authorizing the July 2017 Water Supply Contract Payment
4. \* Recommend Approval of a Revised SCWD Retail Debt Management Policy
5. \* Committee Planning Calendar
6. General Report on Budget and Rates Activities
7. Adjournment

- \* Indicates attachment
- ◆ Indicates to be distributed

cc: CLWA Board of Directors  
Joe Byrne

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Notice:

Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by telephoning (661) 297-1600, or writing to Castaic Lake Water Agency at 27234 Bouquet Canyon Road, Santa Clarita, CA 91350. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so that Agency staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the Agency to provide the requested accommodation.

Pursuant to Government Code Section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection at the Castaic Lake Water Agency, located at 27234 Bouquet Canyon Road, Santa Clarita, California 91350, during regular business hours. When practical, these public records will also be made available on the Agency's Internet Web site, accessible at <http://www.clwa.org>.


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## Castaic Lake Water Agency Memorandum

May 30, 2017

**To:** Budget and Rates Committee

**From:** Valerie L. Pryor   
Assistant General Manager

**Subject:** Recommend Approval of Resolutions Setting Castaic Lake Water Agency Tax Rate for Fiscal Year 2017/18 and Requesting Levy of Tax by Los Angeles County and Ventura County

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### SUMMARY

Based on estimated assessed valuations for Los Angeles and Ventura Counties and the State Department of Water Resources (DWR) 2017 Statement of Charges, it is recommended that the Agency maintain the tax rate of 7.06 cents per \$100 assessed valuation (no change from FY 2016/17). This is based on the FY 2016/17 estimated ending State Water Contract Fund balance, FY 2017/18 estimated State Water Project (SWP) expenditures and an increase in secured assessed values (5% overall).

### DISCUSSION

In order to recommend the Agency-set tax rate that is used to fund DWR Water Supply Contract payments, staff analyzes the projected State Water Contract Fund balance, estimated FY 2017/18 expenditures and the assessed valuation, and recommends a tax rate sufficient to fund fiscal year expenditures and provide an adequate ending balance for future year costs. Los Angeles County requires the Agency provide the estimated tax rate by the first half of August of each year.

FY 2017/18 estimated SWP expenditures are based on the 2017 Statement of Charges and estimates for variable charges during FY 2017/18. FY 2017/18 tax revenues are based on an increase in assessed valuation of 5%, which is a similar to the increase that occurred in FY 2016/17.

Based on estimated expenditures and revenues, staff recommends no change in the tax rate. To be fiscally conservative and recognizing that SWP costs are increasing at a rapid rate, and to mitigate future tax rate increases as SWP costs continue to increase in the future, staff recommends no change in the tax rate at this time. Based on increasing SWP costs, even with increasing assessed valuations, it is likely that the tax rate will have to increase in the future, perhaps in FY 2019/20. This analysis does not include potential funding for California WaterFix. This may require additional increases in the tax rate, perhaps in FY 2019/20.

Attachment A shows an analysis of the State Water Contract Fund for FY 2017/18 based on the recommended tax rate.

For a home assessed at \$500,000, the annual tax would remain at approximately \$353.

**FINANCIAL CONSIDERATIONS**

The cash flow to be generated by the proposed tax rate is sufficient to pay DWR Water Supply Contract payments for FY 2017/18 and to provide sufficient funds on hand at fiscal yearend for future year costs. Based on the recommended tax rate of 7.06 cents per \$100 assessed valuation and an increase of 5% in assessed valuation, the FY 2017/18 estimated revenue is \$29.8 million.

**RECOMMENDATION**

That the Budget and Rates Committee recommends the Board of Directors adopt the proposed FY 2017/18 tax rate of 7.06 cents per \$100 valuation for Los Angeles County and Ventura Country and adopt the attached resolutions setting Castaic Lake Water Agency Tax Rate for Fiscal Year 2017/18 and Requesting Levy of Tax by Los Angeles County and Ventura County.

VLP

Attachments

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**RESOLUTION NO.**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE CASTAIC LAKE WATER AGENCY  
SETTING CASTAIC LAKE WATER AGENCY TAX RATE FOR  
FISCAL YEAR 2017/18 AND REQUESTING LEVY  
OF TAX BY LOS ANGELES COUNTY**

**WHEREAS**, pursuant to the Ross-Johnson-Marks Property Tax Limitation Act of 1985, the Agency is empowered to make payments to the State of California under contracts for the sale, delivery, or use of water entered into pursuant to the California Water Resources Development Bond Act as set forth in the California Water Code; and

**WHEREAS**, the Agency is hereby setting an ad valorem property tax rate for its Fiscal Year 2017/18, pursuant to Revenue and Taxation Code, Section 97.65 (a), solely for the making of the aforesaid type of payment, and not to fund any reduction whatsoever in the rates charged by the Agency for water.

**NOW, THEREFORE, BE IT RESOLVED** that this Board of Directors of the Castaic Lake Water Agency does hereby fix the rate of tax to be levied against all taxable property within the Agency at \$0.000706000 for each \$1.00 of assessed valuation, or \$0.070600 for each \$100 of assessed valuation, for Fiscal Year 2017/18 for the aforesaid purpose.

**RESOLVED FURTHER** that this Board does hereby request and direct that, at the time and in the manner required by law for levying taxes for county purposes, the Board of Supervisors of Los Angeles County, in addition to such other tax as may be levied by said Board of Supervisors, levy a tax upon all taxable property in Los Angeles County within the Castaic Lake Water Agency at the aforesaid rate so fixed and determined by the Board of Directors of the said Agency, all pursuant to Resolution No. 70 of the Agency, as adopted on September 6, 1967.

**RESOLVED FURTHER** that the Board of Directors of this Agency does hereby direct that the Secretary of the Agency cause to be delivered to the Board of Supervisors of Los Angeles County a certified copy of this resolution, and the Secretary is further authorized to furnish any legally required Agency budget information reasonable needed by the officers of the said County with respect to the aforesaid tax and tax rate.

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**RESOLUTION NO.**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE CASTAIC LAKE WATER AGENCY  
SETTING CASTAIC LAKE WATER AGENCY TAX RATE FOR  
FISCAL YEAR 2017/18 AND REQUESTING LEVY  
OF TAX BY VENTURA COUNTY**

**WHEREAS**, pursuant to the Ross-Johnson-Marks Property Tax Limitation Act of 1985, the Agency is empowered to make payments to the State of California under contracts for the sale, delivery, or use of water entered into pursuant to the California Water Resources Development Bond Act as set forth in the California Water Code; and

**WHEREAS**, the Agency is hereby setting an ad valorem property tax rate for its Fiscal Year 2017/18, pursuant to Revenue and Taxation Code, Section 97.65 (a), solely for the making of the aforesaid type of payment, and not to fund any reduction whatsoever in the rates charged by the Agency for water.

**NOW, THEREFORE, BE IT RESOLVED** that this Board of Directors of the Castaic Lake Water Agency does hereby fix the rate of tax to be levied against all taxable property within the Agency at \$0.00070600 for each \$1.00 of assessed valuation, or \$0.070600 for each \$100 of assessed valuation, for Fiscal Year 2017/18 for the aforesaid purpose.

**RESOLVED FURTHER** that this Board does hereby request and direct that, at the time and in the manner required by law for levying taxes for county purposes, the Board of Supervisors of Ventura County, in addition to such other tax as may be levied by said Board of Supervisors, levy a tax upon all taxable property in Ventura County within the Castaic Lake Water Agency at the aforesaid rate so fixed and determined by the Board of Directors of the said Agency, all pursuant to Resolution No. 69 of the Agency, as adopted on September 6, 1967.

**RESOLVED FURTHER** that the Board of Directors of this Agency does hereby direct that the Secretary of the Agency cause to be delivered to the Board of Supervisors of Ventura County a certified copy of this resolution, and the Secretary is further authorized to furnish any legally required Agency budget information reasonable needed by the officers of the said County with respect to the aforesaid tax and tax rate.

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Attachment A  
State Water Contract Fund  
FY 2017/18

	Actual FY 2014/15	Actual FY 2015/16	Projected FY 2016/17	Projected FY 2017/18
<b>Fund Balance, Beginning</b>	\$ 28,694,755	\$ 34,860,629	\$ 40,334,279	\$ 46,928,679
<b>REVENUES</b>				
Agency Set Property Tax Revenues	\$ 26,070,350	\$ 27,099,354	\$ 28,422,800	\$ 29,822,800
Investment Income	231,913	296,869	371,300	401,000
<b>Total State Water Contract Fund Revenues</b>	<b>\$ 26,302,263</b>	<b>\$ 27,396,223</b>	<b>\$ 28,794,100</b>	<b>\$ 30,223,800</b>
<b>EXPENDITURES</b>				
DWR Variable Charge	(3,997,735)	(4,835,394)	(5,000,000)	(9,000,000)
State Water Contract Payments	(17,657,459)	(19,704,836)	(18,381,700)	(22,300,000)
Legal Consulting	(540)	(765)	(1,000)	(1,000)
State Water Contractors/SWPCA Dues	(225,996)	(186,910)	(282,000)	(234,000)
SWC Audit	(25,857)	(26,775)	(35,000)	(35,000)
Refunds from State	1,771,198	2,832,107	1,500,000	1,000,000
Contingencies	-	-	-	(2,000,000)
<b>Total State Water Contract Fund Expenditures</b>	<b>\$ (20,136,389)</b>	<b>\$ (21,922,573)</b>	<b>\$ (22,199,700)</b>	<b>\$ (32,570,000)</b>
<b>Available Fund Balance, Ending</b>	<b>\$ 34,860,629</b>	<b>\$ 40,334,279</b>	<b>\$ 46,928,679</b>	<b>\$ 44,582,479</b>
<b>Tax Rate per \$100 in Assessed Valuation</b>	<b>\$ 0.070600</b>	<b>\$ 0.070600</b>	<b>\$ 0.070600</b>	<b>\$ 0.070600</b>

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## Castaic Lake Water Agency Memorandum

May 30, 2017

**To:** Budget and Rates Committee

**From:** Valerie L. Pryor *Valerie Pryor*  
Assistant General Manager

**Subject:** Recommend Approval of a Resolution Authorizing July 2017 Water Supply Contract Payment

### SUMMARY AND DISCUSSION

The Agency has typically approved State Water Project payments for an entire fiscal year, each year in July. The process combined the Department of Water Resources (DWR) current calendar year Statement of Charges with the upcoming calendar year Statement of Charges to develop the fiscal year State Water Contract payment schedule that would be approved by a resolution.

Because there is typically very little time between receipt of the Statement of Charges and preparation of the proposed resolution, staff recommends the Agency approve the July 2017 payment in June 2017. The entire schedule of FY 2017/18 payments would be recommended for approval in July or August 2017.

For July 2017, the fixed charges total \$4,307,584 as follows:

	Delta Water Charge	Transportation Charge	Devil Canyon Castaic Charge	Off-Aqueduct Power Charge	Water System Revenue Bond Surcharge	Total
July 2017	\$1,309,353	\$1,928,193	\$78,049	\$7,524	\$984,465	\$4,307,584

The variable charges will depend on the water deliveries during July 2017.

### FINANCIAL CONSIDERATIONS

DWR payments are fully funded by Agency-set property tax revenues received from Los Angeles and Ventura Counties.

### RECOMMENDATION

That the Budget and Rates Committee recommends the Board of Directors adopt the attached resolution authorizing the General Manager to disburse funds from the State Water Contract Fund in a timely manner to meet the Water Supply Contract and Devil Canyon-Castaic Contract payment obligations for July 2017.

VLP

Attachment

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**RESOLUTION NO.**

**RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE CASTAIC LAKE WATER AGENCY  
AUTHORIZING THE JULY 2017 WATER SUPPLY CONTRACT PAYMENT**

**WHEREAS**, the Castaic Lake Water Agency on April 30, 1963 contracted with the State of California through the Department of Water Resources for a water supply pursuant to the California Water Resources Development Bond Act; and

**WHEREAS**, the Castaic Lake Water Agency on June 23, 1972 joined in the Devil Canyon-Castaic Contract, which amended payment terms of the State Water Contract to require Agency payment for debt service on bonds issued under the contract and operation and maintenance of certain facilities; and

**WHEREAS**, the Castaic Lake Water Agency is currently entitled under the Water Supply Contract, as amended, to a total Annual Table A amount of 95,200 acre-feet; and

**WHEREAS**, the Water Supply Contract, as amended, requires the Castaic Lake Water Agency to make payments to the Department of Water Resources for water service on account of (1) a Delta Water Charge, (2) a Transportation Charge, (3) a Devil Canyon-Castaic Contract Charge, (4) an Off-Aqueduct Power Facilities Charge as an addition to the Transportation Charge and (5) a Water System Revenue Bond Surcharge; and

**WHEREAS**, pursuant to Article 29 of the Water Supply Contract and Articles 17 and 22 of the Devil Canyon-Castaic Contract, the Castaic Lake Water Agency has received statements of charges embracing and detailing the payment due in July 2017; and

**WHEREAS**, a summary of the charges contained in the statements is as follows and the total of the invoiced July 2017 Water Supply Contract charges is \$4,307,584 , plus Variable Operation, Maintenance, Power and Replacement Charges.

	<b>Delta Water Charge</b>	<b>Transportation Charge</b>	<b>Devil Canyon Castaic Charge</b>	<b>Off-Aqueduct Power Charge</b>	<b>Water System Revenue Bond Surcharge</b>	<b>Total</b>
July 2017	\$1,309,353	\$1,928,193	\$78,049	\$7,524	\$984,465	\$4,307,584

**NOW, THEREFORE BE IT RESOLVED**, that the Board of Directors of the Castaic Lake Water Agency authorizes the General Manager to disburse funds from the State Water Contract Fund, subject to adjustments, in a timely manner to meet the Water Supply Contract and Devil Canyon-Castaic Contract payment obligations due during July 2017.


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## Castaic Lake Water Agency Memorandum

May 30, 2017

To: Budget and Rates Committee

From: Valerie L. Pryor   
Assistant General Manager

Subject: Recommend Approval of a Revised SCWD Retail Debt Management Policy

### SUMMARY

On October 14, 2009, the Board of Directors approved the SCWD Debt Management Policy specific to Retail operations to complement current policies and demonstrate SCWD's commitment to a long-term financial planning. Under the Board's direction, staff periodically reviews the Board-approved policies to ensure current Agency practices are reflected in the policies, to comply with current laws and to adapt to current operations. In January 2017, the Agency's Financial Advisor and the Agency's Bond Counsel reviewed the Agency's Wholesale Debt Management and recommended changes to the Wholesale Debt Management Policy to comply with SB 1029 which became effective January 1, 2017. Similar changes are proposed for the Retail Debt Management Policy.

### DISCUSSION

The significant changes to the Retail Debt Management Policy are to reflect SB 1029 that became effective January 1, 2017. In general, SB 1029 requires local agencies that issue debt have a comprehensive debt management policy. SCWD currently has such a policy but needs to update the policy to reflect internal controls that ensure the proceeds of debt issuance will be directed to the intended use. SCWD currently has these internal controls in place, but now proposes to describe those controls in the Retail Debt Management policy. The proposed changes are shown in the attached policy.

### FINANCIAL CONSIDERATIONS

None.

### RECOMMENDATION

That the Budget and Rates Committee recommends that the Board of Directors approve the attached proposed revised Retail Debt Management Policy.

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Attachment

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**SANTA CLARITA WATER DIVISION  
DEBT MANAGEMENT POLICY  
(RETAIL WATER SYSTEM)**  
*(Proposed Revised June 2017/May-2014)*

**INTRODUCTION**

This policy documents Santa Clarita Water Division (SCWD or the Division) of the Castaic Lake Water Agency (the Agency) goals for the use of debt instruments and provides guidelines for the use of debt for financing SCWD infrastructure and project needs. The Division's overriding goal in issuing debt is to respond to, and provide for, the infrastructure, capital project and other financing needs of the Retail water system while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality.

SCWD will pay for all infrastructures, projects, and other financing needs from a combination of current revenues, available reserves, if any, and prudently issued debt. SCWD believes that debt can provide an equitable means of financing projects for its customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to meet financing needs if (i) it meets the goals of equitable treatment of all customers, both current and future, (ii) it is the most cost-effective means available (iii) it is fiscally prudent, responsible, and diligent under the prevailing economic conditions and (iv) if there are other important policy reasons thereof. SCWD issues debt instruments, administers Division-held debt proceeds and makes debt service payments only when all the financing needs mentioned above are met.

**STATEMENT OF PURPOSE**

This policy documents the goals for the use of debt instruments and provides guidelines for the use of debt financing by the Santa Clarita Water Division for its Retail water system. Note that the wholesale water system (Castaic Lake Water Agency) has its own debt management policy.

**Purpose and Use of Debt**

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

**Purpose of Policy**

The purpose of this debt management policy is to:

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

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

- ◆ The state law which authorizes the issuance of the debt
- ◆ The federal and state laws which govern the eligibility of the debt for tax-exempt status
- ◆ The federal and state laws which govern the issuance of ~~taxable~~ tax-exempt debt
- ◆ The federal and state laws which govern disclosure, sale, and trading of the debt

## **Types of Debt**

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

## **I. GENERAL PROVISIONS**

The Division will provide for a periodic review of its financial performance, and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting, and rate setting process.

Necessary appropriations for annual debt service requirements will be routinely included in the Division's annual budget.

SCWD will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible interest rates.

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

- ◆ SCWD will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.
- ◆ SCWD will not issue debt to finance operating needs except in case of an extreme financial emergency which is beyond its control or reasonable ability to forecast, and unless specifically approved by the Agency's Board of Directors (Board).
- ◆ Debt issuance for a capital project will not be considered unless such project has been incorporated into the Division's capital planning process, or as otherwise approved by the Board.

## **II. CONDITIONS FOR DEBT ISSUANCE**

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

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

- ◆ Achieve the lowest cost of capital
- ◆ Ensure ratepayer equity for SCWD's customers
- ◆ Maintain the adopted credit rating strategy and access to credit enhancement
- ◆ Preserve financial flexibility

### **Standards for Use of Debt Financing**

When appropriate, SCWD will use long-term debt financing to achieve an equitable allocation of capital costs/charges between current and future system users, to provide more manageable rates in the near and medium term and to minimize rate volatility.

SCWD shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life.

Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

### **Types of Debt**

Revenue bonds, Certificates of Participation, commercial paper, capital leases and lease-purchase financing will be treated as debt and subject to these same policies.

### **Debt Capacity**

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

### **Financing Criteria**

Each debt issuance should be evaluated on an individual basis within the context of the Division's overall financing objectives and current market conditions.

SCWD will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

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

*Cash-Funded Reserve vs. Surety* – If the issuance of debt requires a cash-funded Debt Service Reserve Fund, then the Division may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous. SCWD may permit the use of guaranteed investment agreements for the investment of reserve funds pledged to the repayment of any of the Division's debt when it is approved by the Board.

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

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

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

*Variable Rate Debt* – Variable rate debt products are priced at the short-end of the yield curve at low interest rates, but subject to various risks. Variable rate debt may be appropriate for the Division's portfolio, depending on market conditions and careful consideration of the risks involved. Variable rate debt products include variable rate demand obligations, commercial paper and other obligations which have interest rates adjusting periodically. The Division may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable rate debt, the Division will analyze the risks associated with the variable rate debt and the impact on the Division's overall portfolio. The principal amount of variable rate debt products, including those synthetically fixed through the use of derivative products, shall not exceed 25% of total SCWD outstanding debt.

*Derivatives* – The use of derivatives is covered by the Agency's Derivatives Policy. This policy states that it has been developed to guide the Division in its use of interest rate risk mitigation products such as interest rate swaps and other such financing techniques. These financing products can increase the Division's financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. Careful monitoring of such products is required to preserve Division credit strength and budget flexibility. Derivatives will not be used to speculate on perceived movements in interest rates. The notional amount of derivative products shall not exceed 15% of total Division outstanding debt. More detailed information is contained in the Derivatives Policy.

*Upper Santa Clara Valley Joint Powers Authority* – The Division is a member of the Upper Santa Clara Valley Joint Powers Authority. The Division will consider issuing revenue bonds through the Authority

on a case-by-case basis. The Division will only issue revenue bonds through the Authority only when clearly demonstrable savings can be realized.

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

### **Refinancing Outstanding Debt**

The Treasurer shall have the responsibility to evaluate potential refunding opportunities. The Division will consider the following issues when analyzing potential refinancing opportunities:

*Debt Service Savings* – The Division shall establish a target savings level equal to 3% for current refundings and 5% for advanced refundings of the par of debt refunded on a net present value (NPV) basis. ~~Theis figure-target savings levels will serve only as a guidelines and SCWD may determine that a different saving targets are-is appropriate;~~ SCWD shall evaluate each refunding opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

- ◆ Remaining time to maturity
- ◆ Size of the issue
- ◆ Current interest rate environment
- ◆ Annual cash flow savings
- ◆ The value of the call option
- ◆ Other factors that may be particularly relevant to the Division at the time

The decision to take all savings upfront or on a deferred basis must be explicitly approved by the Board.

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

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

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

### **Outstanding Debt Limitations**

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

### **Method of Issuance**

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

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

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

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

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

#### **Internal Controls**

SCWD will maintain segregation of duties and will provide reconciliation and documentation controls.

To ensure bond proceeds from bond sales are used in accordance with legal requirements, invoices are submitted by the appropriate Project Manager and are approved for payment by the appropriate Department Manager and/or delegated staff/supervisor, the Retail Administrative Officer and the Retail Manager for payment. In the case of an issuance of bonds for which the proceeds will be used by a government entity other than SCWD, SCWD may rely upon a certification by such other governmental entity that it has adopted the policies described in SB 1029.

A separate fund and/or account will be setup to hold proceeds from bond sales to ensure only properly approved invoices are paid as permitted per legal requirements.

Debt issuance transactions are approved by the Board of Directors.

Responsibility for general ledger reconciliations and records are segregated from the invoice processing, cash disbursement and cash receipts functions.

#### **Market Communication, Debt Administration and Reporting Requirements**

*Rating Agencies* – The Treasurer and/or Retail Administrative Officer shall be responsible for maintaining the Division's relationships with Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investors Service to the extent the Division has ratings from such firm. SCWD shall, from time to time, maintain relationships with these agencies as circumstances dictate. The Division may choose based upon market conditions the number of ratings to obtain for any individual debt issuance. In addition to general communication, the Treasurer and/or Retail Administrative Officer should attempt to meet, (either in person or via phone or email) with credit analysts at least once each fiscal year. The Treasurer and/or Retail Administrative Officer shall prior to each competitive or negotiated sale, offer conference calls or meeting(s) with rating agency analysts in connection with the planned sale.

*Observance of Debt Covenants* – The Treasurer and/or Retail Administrative Officer will periodically ensure that SCWD is in compliance with all legal covenants for each debt issue.

*Continuing Disclosure* – The Treasurer and/or Retail Administrative Officer will periodically comply for all debt issued with Rule 15c2-12(b)(5) by required filing as covenanted in each debt issue's Continuing Disclosure Agreement.

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

*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 Treasurer and/or Retail Administrative Officer 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 is made in a timely manner.

*Policy Review* – This policy should be reviewed periodically by the Board and updated as needed. This policy is intended to comply with SB 1029.

*(Originally Adopted October 2009; revised May 2014; revised June 2017)*

**BUDGET AND RATES COMMITTEE PLANNING CALENDAR  
FISCAL YEAR 2016/17**

**JUNE 2017**

COMMITTEE (June 5)

1. Recommend Approval of Resolutions Setting Castaic Lake Water Agency Tax Rate for FY 2017/18 and Requesting Levy of Tax by Los Angeles County and Ventura County
2. Recommend Approval of a Resolution Authorizing the July 2017 Water Supply Contract Payment
3. Recommend Approval of a Revised SCWD Retail Debt Management Policy
4. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, June 14)

JPA Meeting (1<sup>st</sup> meeting, June 14)

BOARD (2<sup>nd</sup> meeting, June 28)

1. Approve Resolutions Setting Castaic Lake Water Agency Tax Rate for FY 2017/18 and Requesting Levy of Tax by Los Angeles County and Ventura County (consent)
2. Approve a Resolution Authorizing the July 2017 Water Supply Contract Payment (consent)
3. Approve a Revised SCWD Retail Debt Management Policy

JPA Meeting (2<sup>nd</sup> meeting, June 28)

**BUDGET AND RATES COMMITTEE PLANNING CALENDAR  
FISCAL YEAR 2017/18**

**JULY 2017**

COMMITTEE (July 10)

1. Recommend Approval of a Revised Retail Reserve Fund Policy
2. Recommend Approval of Resolution Authorizing FY 2017/18 Water Supply Contract Payments (can wait until August meeting if meeting is cancelled or can go direct to Board).
3. SCWD Rate Study Discussion
4. Committee Planning Calendar

BOARD (July 26)

1. Approve a Revised Retail Reserve Fund Policy
2. Approve a Resolution Authorizing FY 2017/18 Water Supply Contract Payments (consent) – Could go straight to Board if July Committee meeting is cancelled.

JPA Meeting (July 26)

**AUGUST 2017**

COMMITTEE (August 7)

1. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, August 9)

JPA Meeting (1<sup>st</sup> meeting, August 9)

BOARD (2<sup>nd</sup> meeting, August 23)

JPA Meeting (2<sup>nd</sup> meeting, August 23)

**SEPTEMBER 2017**

COMMITTEE (September 11)

1. Committee Planning Calendar

BOARD (September 27)

JPA Meeting (September 27)



**BUDGET AND RATES COMMITTEE PLANNING CALENDAR  
FISCAL YEAR 2017/18**

**OCTOBER 2017**

COMMITTEE (October 9)

1. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, October 11)

JPA Meeting (1<sup>st</sup> meeting, October 11)

BOARD (2<sup>nd</sup> meeting, October 25)

JPA Meeting (2<sup>nd</sup> meeting, October 25)

**NOVEMBER 2017**

COMMITTEE (November 6)

1. Recommend Receiving and Filing of Wholesale System FY 2017/18 Yearend Budget Report
2. Recommend Receiving and Filing:
  - a. FY 2016/17 Comprehensive Annual Financial Report and the Management Report
  - b. FY 2016/17 Wholesale and Retail Interdivisional Services Report
3. Committee Planning Calendar

BOARD (November 20)

1. Approve Receiving and Filing of Wholesale System FY 2017/18 Yearend Budget Report (consent)
2. Approve Receiving and Filing:
  - a. FY 2016/17 Comprehensive Annual Financial Report and the Management Report
  - b. FY 2016/17 Wholesale and Retail Interdivisional Services Report

JPA Meeting (2<sup>nd</sup> meeting, November 20)

**DECEMBER 2017**

COMMITTEE (December 11)

1. Committee Planning Calendar

BOARD (December 27)

JPA Meeting (December 27)

**BUDGET AND RATES COMMITTEE PLANNING CALENDAR  
FISCAL YEAR 2017/18**

**JANUARY 2018**

FINANCING CORPORATION (tbd)

1. Annual meeting

COMMITTEE (January 8)

1. Committee Planning Calendar

BOARD (January 24)

JPA Meeting (January 24)

**FEBRUARY 2018**

COMMITTEE (February 12)

1. Recommend Receiving and Filing of Wholesale System FY 2017/18 Midyear Budget Report
2. SCWD Rate Study Discussion
3. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, February 14)

JPA Meeting (1<sup>st</sup> meeting, February 14)

BOARD (2<sup>nd</sup> meeting, February 28)

1. Approve Receiving and Filing of Wholesale System FY 2017/18 Midyear Budget Report (consent)

JPA Meeting (2<sup>nd</sup> meeting, February 28)

1. Re-adopt Investment Policy
2. Elect officers

STRATEGIC PLANNING WORKSHOP (February 23 and 24)

**MARCH 2018**

COMMITTEE (March 12)

1. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, March 14)

JPA Meeting (1<sup>st</sup> meeting, March 14)

BOARD (2<sup>nd</sup> meeting, March 28)

JPA Meeting (2<sup>nd</sup> meeting, March 28)

**BUDGET AND RATES COMMITTEE PLANNING CALENDAR  
FISCAL YEAR 2017/18**

**APRIL 2018**

COMMITTEE (April 9)

1. Provide Direction for a Proposed Employee Salary Adjustment for FY 2018/19
2. Review Draft FY 2018/19 Wholesale Budget
3. Review Draft FY 2018/19 SCWD Budget
4. Review SCWD Rate Increase Options
5. Recommend Approval of a Resolution Revising the SCWD Reserve Fund Policy
6. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, April 11)

1. Review and Provide Direction for Budget Baseline and Baseline Options

JPA Meeting (1<sup>st</sup> meeting, April 11)

BOARD (2<sup>nd</sup> meeting, April 25)

1. Approve Proposed Employee Salary Adjustment for FY 2018/19
2. Approve a Resolution Revising the SCWD Reserve Fund Policy

JPA Meeting (2<sup>nd</sup> meeting, April 25)

**MAY 2018**

COMMITTEE (May 14)

1. Recommend Approval of a Resolution Adopting the Wholesale System Fiscal Year 2018/19 Budget
2. Recommend Approval of a Resolution Adopting the Appropriation of All As-Yet Unappropriated Funds for FY 2017/18
3. Recommend Approval of a Resolution Adopting the Appropriation Limit for FY 2018/19
4. Recommend Approval of a Resolution Adopting the SCWD Fiscal Year 2018/19 Budget
5. Recommend Approval of a Resolution Authorizing a Proposition 218 Notice of Public Hearing on the Proposed Retail Water Rates and Setting a Public Hearing Date
6. Committee Planning Calendar

BOARD (2<sup>nd</sup> meeting, May 23)

1. Approve a Resolution Adopting the Wholesale System Fiscal Year 2018/19 Budget
2. Approve a Resolution Adopting the Appropriation of All As-Yet Unappropriated Funds for FY 2017/18 (consent)
3. Approve a Resolution Adopting the Appropriation Limit for FY 2018/19 (consent)
4. Approve a Resolution Adopting the SCWD Fiscal Year 2018/19 Budget
5. Approve a Resolution Authorizing a Proposition 218 Notice of Public Hearing on the Proposed Retail Water Rates and Setting a Public Hearing Date

JPA Meeting (2<sup>nd</sup> meeting, May 23)

1. Approve a Resolution Adopting the Fiscal Year 2018/19 Budget

**BUDGET AND RATES COMMITTEE PLANNING CALENDAR  
FISCAL YEAR 2017/18**

**JUNE 2018**

COMMITTEE (June 11)

1. Recommend Approval of Resolutions Setting Castaic Lake Water Agency Tax Rate for Fiscal Year 2018/19 and Requesting Levy of Tax by Los Angeles County and Ventura County
2. Recommend Approval of Resolution Authorizing July 2018 Water Supply Contract Payment
3. Committee Planning Calendar

BOARD (1<sup>st</sup> meeting, June 13)

JPA Meeting (1<sup>st</sup> meeting, June 13)

BOARD (2<sup>nd</sup> meeting, June 27)

1. Approve Resolutions Setting Castaic Lake Water Agency Tax Rate for Fiscal Year 2018/19 and Requesting Levy of Tax by Los Angeles County and Ventura County (consent)
2. Approve a Resolution Authorizing July 2018 Water Supply Contract Payment (consent)

JPA Meeting (2<sup>nd</sup> meeting, June 27)