

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER



FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: FEBRUARY 1, 2017

AGENDA ITEM

2

FEBRUARY 3, 2017

REVIEW DEBT MANAGEMENT POLICY

ITEM

Reserve Debt Management Policy

BACKGROUND

On January 11, 2017, the Board of Directors performed their annual review of the Debt Management Policy. Director Armstrong questioned Section III (A) and Section IV (C) and (D). The Board of Directors directed the Finance and Audit Committee to meet, review the debt management policy and report back.

Staff directed the questions to Maryann Goodkind of the firm Norton Rose Fulbright. Ms. Goodkind acted as Bond Counsel to the District and assisted in the preparation and adoption of the debt management policy.

In addition to Ms. Goodkind reviewed the Debt Management Policy and confirmed that it was in compliance with the new SB 1029 that was recently adopted.(see Attachment A)

Ms. Goodkind's responses to Director Armstrong's questions are in italics (see Attachment B).

RECOMMENDATION

It is recommended that the Committee review the debt management policy and provide direction to Staff.

ATTACHMENT

- A. Responses by Maryann Goodkind, Bond Counsel-SB 1029 Compliance
- B. Responses to Maryann Goodkind, Bond Counsel-Debt Management Policy questions
- C. Debt Management Policy

February 3, 2017

ITEM 2

ATTACHMENT A

Lisa Bognuda

From: Goodkind, Maryann <maryann.goodkind@nortonrosefulbright.com>
Sent: Wednesday, January 18, 2017 12:47 PM
To: Lisa Bognuda
Cc: 'Curt de Crinis' (curt@cmdecrinis.com)
Subject: debt policy questions (3)
Attachments: debt policy questions (3).docx

Lisa,

First off, your Debt Management Policy is in compliance with the new SB 1029 bill and you should have no trouble if you were to issue debt in the future and you need to certify to CDIAC that you have appropriate policies in place. SB 1029 requires that your policies have the following:

- (A) The purposes for which the debt proceeds may be used.
- (B) The types of debt that may be issued.
- (C) The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
- (D) Policy goals related to the issuer's planning goals and objectives.
- (E) The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

Now, as to the questions from the Director, please see the comments in red on the attached document. I ran them by Curt de Crinis and his responses have been incorporated.

Thanks,
Maryann

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February 3, 2017

ITEM 2

ATTACHMENT B

Questions from Director Armstrong,

NCSD's Debt Management Policy

Item (1) in Question (Pg. 4) A. Standards for Use of Debt Financing

- For growth-related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system.

Question: What does this mean and how would it manifest in our environment? Can you provide an example? What exposure or opportunities would be missed if this language were not in the policy?

This language means that the District will incur new debt to finance expansions to the water system as a result of growth rather than run down cash to finance the expansion. There is still a substantial amount of flexibility for the District in determining the factors of the size of the new projects and the timing of new connections to the system but it is intended as a guideline so that the District does not end up with oversized facilities and excess capacity and little need or, in the reverse, demand but insufficient funds without debt financing to build and meet the needs of the new connections. Even if this language were not in the policy the District would still need a rationale for statutory purposes to oversize facilities with or without bond financing.

Item (2) in Question (Pg. 11) C. Compliance Monitoring

Question: Who verifies that the GM monitors its compliance with federal tax requirements applicable to the Tax-Exempt Bonds?

It may be appropriate for the GM to provide the Board with an annual Compliance Verification Letter. In order to do this, the GM would need input from Bond Counsel to provide updates or changes to regulations that have or potentially could have an impact on District tax-exempt bonds.

This only applies to the extent the District has unexpended bond construction funds and bond reserve funds. Generally, when an issues closes, the laws and regulations at the time of the closing govern the bond issue. The tax certificate and inquiries to bond counsel provide guidance should questions arise on the use of bond proceeds, investment funds, arbitrage rebate or use of the facility.

Item (3) in Question (Pg. 11) D. Record Retention

Question: Who verifies that staff retains records as listed.

Here again, it may be appropriate and proper for the GM to include an annual verification letter stating record retention activities for each bond issuance, that these bond records are being maintained as well as demonstrating that all returns are filed with the IRS. It may be practical to combine Items (2) & (3) in one annual letter to the Board from the GM.

This is a policy decision for the Board. The District's policy provides a blueprint and guidelines for the General Manager to follow. The Board may feel it needs or wants an annual staff report or compliance letter from GM but it is not required by law.

February 3, 2017

ITEM 2

ATTACHMENT C

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2013-1324**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO
COMMUNITY SERVICES DISTRICT APPROVING THE ADOPTION
OF THE AMENDMENT TO THE DEBT MANAGEMENT POLICY
FOR THE DISTRICT**

WHEREAS, debt management policies establish parameters for evaluation, issuing, and managing the District's debt. The policies outlined in the attached debt management policy are not intended to serve as a list of rules to be applied to the District's debt issuance process, but rather to serve as a set of guidelines to promote sound financial management; and

WHEREAS, adherence to a debt management policy assures rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner; and

WHEREAS, the Board of Directors of the Nipomo Community Services District ("District"), desires to adopt an amended debt management policy at this time; and

WHEREAS, Amended Debt Management Policy (the "Policy") has been prepared and is hereby presented at this meeting; and

WHEREAS, it is appropriate at this time for the Board of Directors to consider approval of the adoption of the Amended Policy; and

WHEREAS, THE Board of Directors wishes to further define this policy regarding debt financing of additional phases of the District's Supplemental Water Project.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Nipomo Community Services District:

Section 1. The above recitals are true and correct.

Section 2. The Amended Debt Management Policy in the form presented at this meeting attached hereto Exhibit "A" are hereby approved and adopted.

Section 3. The officers of the District are hereby directed to do and cause to be done any and all acts and things necessary or proper in order to effectuate the purposes of this resolution.

Section 4. This resolution shall take effect immediately.

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2013-1324**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY SERVICES
DISTRICT APPROVING THE ADOPTION OF THE AMENDMENT TO THE DEBT
MANAGEMENT POLICY FOR THE DISTRICT**

Upon a motion by Director Armstrong, seconded by Director Blair, on the following roll call vote, to wit:

AYES: Directors Armstrong, Blair, Vierheilig, Gaddis, and Harrison
NOES: None
ABSTAIN: None
ABSENT: None


the foregoing resolution is hereby passed and adopted on this 13th day of November, 2013.



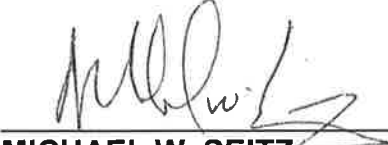
JAMES HARRISON
President of the Board

ATTEST:

APPROVED AS TO FORM:



MICHAEL S. LEBRUN
Secretary to the Board



MICHAEL W. SEITZ
District Legal Counsel

**NIPOMO COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS
2013 AMENDMENT TO THE
DEBT MANAGEMENT POLICY
EXHIBIT "A"**

Overview

The District utilizes a comprehensive planning process to determine its long-term capital needs. The District evaluates each capital project in relation to established levels of reserves, current rate structure, expected asset life/replacement timeline and available revenue sources to ensure that adequate financial resources are available to support the District's financial obligations.

The District's Debt Management Policy is integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such the following policies outline the District's approach to debt management.

I. GENERAL MANAGEMENT POLICIES

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

- The District will adopt revised rates, fees and charges in compliance with the applicable law, including the Proposition 218 Omnibus Implementation Act, and will consider recommendations and input from the public as it relates to such proposed changes.
- All District funds will be invested according to the Investment Policy of the District.
- Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget.

II. FINANCIAL MANAGEMENT POLICIES

- The District will evaluate financing for each capital project on a case-by-case basis. The District will seek to pay for all capital projects from current revenues and available reserves prior to or in combination with the use of debt.
- The District will seek to issue debt only in the case where there is an identified source of repayment. Bonds will be issued to the extent that (i) projected fixed revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such fixed revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

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- User Fees and Rates will be set at adequate levels to generate sufficient revenues to pay all operating and maintenance costs, to maintain sufficient operating reserves, and to pay debt service costs, if necessary.

III. DEBT AND CAPITAL MANAGEMENT POLICIES

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

In issuing debt, the District objectives are:

- Ensure ratepayer security
- Maintain high credit ratings and access to credit enhancement
- Preserve financial flexibility

A. Standards for Use of Debt Financing

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

- For growth-related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system.
- Capital projects financed through debt issuance should not be financed for a term longer than the expected useful life of the project.
- Lease Agreements and Installment Sale Agreements shall be considered as an alternative to long-term debt. Although these forms of alternative financing are subject to annual appropriation, they shall be considered as long-term fixed rate debt until maturity.

B. Financing Criteria

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

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

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Cash-Funded Reserve/Surety - The District may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous.

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

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

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

Term - 10 to 30 years is standard, but up to 35 years may be acceptable, depending on cash flow assumptions, construction timeline, and remaining useful life of the asset being financed.

Maximum Yield - Case by case, as recommended by Financial Advisor and as governed by State law.

Maximum Premium - Case by case, as recommended by Financial Advisor and as governed by State law.

Maximum Discount - Case by case, as recommended by Financial Advisor and as governed by State law.

Payment Dates - After considering cash flow needs, the General Manager will determine the occurrence of all new debt service payments.

Structure of the Debt - Prefer level debt service, but shall be determined on a case-by-case basis, as recommended by of the General Manager and Financial Advisor.

Use of Variable Rate Debt - The District will not issue variable interest rate debt unless the proposed debt is converted to a fixed rate or hedged.

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 each respective bond indenture. 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.

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Reimbursement Resolution - Must be adopted by the Board if the project capital costs are advanced by the District prior to the expenditure and/or commitment of funds, and bond sale.

C. Types of Long-Term Funding

The District shall consider several methods of financing capital projects. This policy will set forth guidelines for these decisions by indentifying parameters within each funding source that are considered appropriate. These parameters are defined below.

Certificates of Participation/Lease Revenue Bonds - Certificates of Participation (COP's) and Lease Revenue Bonds (LRB) can finance water, wastewater and electrical utilities, or other public facilities and are almost identical in structure and security. They are used to finance capital projects that either 1) have an identified budgetary system for repayment; 2) generate enterprise revenue; 3) rely on a broader pledge of General Fund revenues; or 4) finance the purchase of real property and the acquisition and installation of equipment for the District's general government or enterprise purposes. COP's and LRB's are secured by a lease-back or installment sale arrangement between the District and another public entity. The general operating revenues of the District or an enterprise and/or a designated special fund are used to pay the lease or installment payments, which are, in turn, used to pay debt service on the COP's or LRB's. Bond covenants provide that revenues generated by enterprise funds must be sufficient to maintain required debt coverage levels, or the rates of the enterprise have to be raised to maintain the coverage and operations of the facility. For General Fund pledges, bond covenants include an annual appropriation covenant. COP's and LRB's do not constitute indebtedness under the state constitution and are not subject to voter approval.

Because COP's are not created by statute, but rather are used to securitize an underlying contract, they can be adapted to a number of financing situations. They are commonly used for both lease revenue and enterprise revenue financings where no workable statutory framework is available or a joint powers financing authority is not available.

Revenue Bonds - Revenue Bonds also finance water, wastewater utilities, or other public facilities. They are payable by the revenues generated by the enterprise. This type of debt is considered self-liquidating. Revenue Bonds are payable solely from the enterprise funds and are not secured by any pledge of General Fund revenues of the District. Bond covenants provide that revenues generated by these enterprise funds must be sufficient to maintain required debt coverage levels, or the rates of the enterprise have to be raised to maintain the coverage and operations of the facility. A bond election may be required to issue Revenue Bonds.

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Assessment Bonds - The District may issue assessment bonds under the 1911 and 1915 Improvement Acts through the formation of a special benefit assessment district under the 1911 or 1913 Acts. The bonds may be issued to finance facilities or provide services and are secured by assessments levied on parcels within a defined area that are proportionate to the special benefit conferred upon a parcel, as determined by a qualified assessment engineer. Assessments are subject to majority protest hearing and notice ballot requirements. Assessment Bonds, although repaid through additional assessments levied on a discrete group of property owners, constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. Assessment Bonds are not obligations of the District's General Fund.

Mello-Roos Bonds - The Mello-Roos Act of 1982 allows the District to establish a Mello-Roos Community Facilities District (CFD) which allows for financing of public improvements and services. These CFD special taxes must be approved by a two thirds vote of registered voters within the special district (unless there are fewer than 12 registered voters, in which case the vote is by landowners), and are secured solely by a special tax on the real property within the special district. CFD Bonds, although repaid through additional special taxes levied on a discrete group of taxpayers, also constitute overlapping indebtedness of the District and have an impact on the overall level of debt affordability. CFD Bonds are not obligations of the District's General Fund.

Capital Lease Debt - A lease purchase obligation placed with a lender without the issuance of securities may be used to finance certain vehicle and equipment purchases will be evaluated on a case-by-case basis.

D. Limitations on Amount of Debt Issuance

(1) Pursuant to Section 61126 of Government Code of the State of California, the District may incur general obligation bonded indebtedness in an amount not to exceed 15% of the total assessed valuation of all real and personal property in the District.

Review of recent credit rating agency guidelines indicate that debt service of more than 10% of available revenues or expenditures is considered above average or high. The District shall strive to maintain its non-enterprise backed debt service as a percentage of available revenue below 10%.

Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (enterprise funds) and revenues generated from a project. In determining the affordability of proposed enterprise obligations, the District will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance expense)

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to estimated annual debt service. Generally, legal covenants requiring a minimum coverage ratio are set forth in the bond documents, and are based on the level of security provided to the bondholders (of the senior or subordinate debt obligations). The District's enterprise obligations shall include a coverage ratio requirement of at least 125% for senior bonds and a coverage ratio requirement of at least 105% for senior and subordinate debt combined. Per the rating agency guidelines, the District shall strive to maintain a coverage ratio of 115% using historical and/or projected net revenues to cover annual debt service for bonds issued on a subordinate basis which have a 105% coverage ratio requirement. The District will require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

(2) Limitations on Debt Financing for Additional Phases of the Supplemental Water Project - With respect to Phases 2 and/or 3 of the Supplemental Water Project, the Board affirms its policy of "pay as you go" however, because the Board of Directors cannot anticipate the future needs of the District, including whether the timing of construction of these phases of the Project will need to be moved forward in time due to a court, or regulatory agency with authority over water use in the Nipomo Basin, issuing an order requiring the District to build additional delivery capacity and import water by a time certain or face fines or further litigation or if the Nipomo Mesa Management Area (NMMA) Technical Group issues a finding that the ground water basin is in a severe water shortage condition causing a Mandatory Action Trigger point as defined in Section VI D 2 of the Stipulated Judgment in the Santa Maria Groundwater adjudication case # CV 770214. In any of these cases, and only in one of these cases,

The Board shall consider whether to finance any portion(s) of Phases 2 or 3, for the reason(s) set forth above, at two Board meetings at which members of the public may comment; the first meeting will be noticed on the District's Agenda notice, and will include a staff report addressing the reasons for considering financing. The second meeting shall be held at least 14 days after the first meeting. A public notice shall be published once at least 10 days before second/action meeting. At the second meeting, after the public comment, if any, the Board may determine, by a majority vote, whether to finance all, or a portion of, one or both phases before the District has accumulated sufficient funds for "pay as you go." In such case, the District would first use the funds accumulated for the phase(s) and finance the remaining amount(s).

This requirement shall stay in place for 7 years, after which time the Board may, after notice in compliance with §6061, at least 10 days prior to the meeting at which the change will be considered, amend this policy as the Board, in its discretion, determines may be appropriate.

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E. Method of Issuance

The District will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. Public offerings can be executed through either a competitive sale or a negotiated sale. It shall be the policy of the District to issue debt through a competitive sale whenever feasible subject to advice of the District Financial Advisor.

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

Negotiated Sale - District recognizes that some securities are best sold through negotiation. In consideration of a negotiated sale, the District shall assess the following circumstances in determining the advisability such a sale:

- Issuance of variable rate or taxable bonds
- Complex structure or credit considerations (such as non-rated bonds), which requires a strong pre-marketing effort
- Significant par value, which may limit the number of potential bidders
- Unique proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process
- Market volatility, such that the District would be better served by flexibility in the timing of its sale in a changing interest rate environment
- When an Underwriter has identified new financing opportunities or presented alternative structures that financially benefit the District that could not be achieved through a competitive bid.
- As a result of an Underwriter's familiarity with the project/financing, which enables the District to take advantage of efficiency and timing considerations.
- Other considerations and advantages as presented by District Consultants and Staff

Private Placement – From time to time the District may elect to issue debt on a private placement basis. Such method shall only be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or

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if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

F. Service Provider Selection

All financial advisors, bond counsel, disclosure counsel, trustees, and underwriters will be selected pursuant to District's Purchase Policy relating to hiring consultants.

G. Market Communication and Reporting Requirements

Rating Agencies and Investors - The General Manager shall be responsible for maintaining the District's relationships with one or more national rating agencies.

Continuing Disclosure - The District shall use its best efforts to be in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders.

IV. POST ISSUANCE COMPLIANCE POLICY

A. In General

The Board of Directors of the District recognizes its responsibility to ensure compliance with all Federal laws and regulations ("Federal Requirements") applicable to the District's bonds and other obligations the interest on which is excluded from gross income for federal income tax purposes or are otherwise tax advantaged ("Tax-Exempt Bonds"). This policy and guidelines relate to requirements that must be met subsequent to the issuance of Tax-Exempt Bonds in order to maintain that exclusion or receive a federal tax credit payment including, without limitation, requirements relating to use of proceeds, arbitrage, private business use, and record retention. This policy and guideline supersede any post-issuance compliance policy previously adopted by the District but do not supersede, limit or contravene any representations, statements or covenants of the District contained in the bond documents (the "Bond Documents") for its Tax-Exempt Bonds. The purpose of this policy is to provide guidelines and establish procedures for compliance with Federal Requirements in connection with the issuance of Tax-Exempt Bonds.

B. Policy

It is the policy of the District to adhere to all applicable tax requirements with respect to its Tax-Exempt Bonds as set forth in the Bond Documents including, but not limited to, requirements relating to the use of proceeds of Tax-Exempt Bonds and facilities financed and refinanced with Tax-Exempt Bonds (the "Bond-Financed Facilities"), arbitrage yield restrictions and rebate, timely return filings, and other general tax requirements set forth in the Bond Documents.

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C. Compliance Monitoring

Consistent with the covenants of the District contained in the Bond Documents, the District will monitor compliance with the federal tax requirements applicable to its Tax-Exempt Bonds. The following officers or employees of the District are responsible for monitoring compliance with those requirements: General Manager with assistance from Bond and Tax Counsel and Financial Advisor.

D. Record Retention

In accordance with Internal Revenue Service ("*IRS*") requirements, the District will retain the following records with respect to its Tax-Exempt Bonds:

- Bond transcripts;
- Documentation showing the expenditure of proceeds of the Tax-Exempt Bonds for one or more Bond-Financed Facility;
- Documentation showing the use of the Bond-Financed Facilities;
- Documentation showing the sources of payment and security for the Tax-Exempt Bonds;
- Documentation related to the investment of proceeds of the Tax-Exempt Bonds, including the purchase and sale of securities, investment income received, yield calculations, and rebate calculations;
- All returns filed with the IRS for the Tax-Exempt Bonds (including, as applicable, IRS Forms 8038-G *Information Return for Tax-Exempt Governmental Obligations*, 8038-T *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*, and 8038-R *Request for Recovery of Overpayments under Arbitrage Rebate Provisions*), together with sufficient records to show that those returns are correct; and
- Any other documentation that is material to the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes.

Except as otherwise set forth in the Bond Documents, the District will retain the records described above in hard and/or electronic copy format for so long as the applicable Tax-Exempt Bonds remain outstanding and for a period of three years after final redemption of the applicable Tax-Exempt Bonds. With respect to Tax-Exempt Bonds that are refunding bonds, the District will retain the above-described records for the refunding and refunded bonds (and any earlier issue in the case of a series of refundings).

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The following officers or employees of the District are responsible for retaining the records relating to the Issuer's Tax-Exempt Bonds: General Manager and Secretary.

E. Arbitrage Compliance

It is the policy of the District to maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Unless otherwise instructed by bond counsel, at closing the District will execute documentation covenanting to comply with Federal rebate and arbitrage requirements. Unless otherwise instructed by bond counsel, annually the District will engage a consultant to assist in the monitoring of the investment of bond proceeds, perform the required calculations to determine arbitrage rebate and yield restriction compliance, and file the required federal forms. Unless otherwise instructed by bond counsel, every five years the District will file (if arbitrage rebate is owed) with the Internal Revenue Service the appropriate required documentation demonstrating arbitrage rebate liability and provide payment of at least 90% to the US Treasury for arbitrage rebate liability, if any.

F. Remedial Action

If the District in complying with the terms and provisions the policies or guidelines set forth herein or determines that the requirements of these policies and guidelines or the tax covenants or representations in the Bond Documents may have been violated, the District will make final determinations, if necessary with the assistance of its Bond and Tax Counsel and Financial Advisors, and take appropriate actions related to such noncompliance including, if appropriate, any remedial action described under applicable Treasury Regulations or through the Tax Exempt Bonds Voluntary Closing Agreement Program.

G. Coordination With Bond Documents

In the event of any conflict between these Procedures and Guidelines and the Bond Documents, the Bond Documents shall govern.

TO: FINANCE AND AUDIT COMMITTEE

REVIEWED: MARIO IGLESIAS
GENERAL MANAGER



FROM: LISA BOGNUDA
FINANCE DIRECTOR

DATE: FEBRUARY 1, 2017

AGENDA ITEM

3

FEBRUARY 3, 2017

REVIEW CASH RESERVE POLICY

ITEM

Reserve Cash Reserve Policy

BACKGROUND

On January 11, 2017, the Board of Directors performed their annual review of the Cash Reserve Policy. The cash reserve policy for the Town and Blacklake Sewer Rate Stabilization funds (RSF) were discussed. The Board of Directors directed the Finance and Audit Committee to meet, review the cash reserve policy and report back.

Town Sewer Rate Stabilization Fund #135

Pursuant to the Cash Reserve Policy for Town Sewer Rate Stabilization fund #135:

"To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below costs of service)."

The minimum reserve requirement for the Town Sewer is \$300,000 which was established during the issuance of the 2012 Certificates of Participation. It has been determined that a rate stabilization fund is required; however, the balance maintained in the fund is determined by the Board of Directors.

Blacklake Sewer Rate Stabilization Fund #155

Pursuant to the Cash Reserve Policy for Blacklake Sewer Rate Stabilization fund #155:

"To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below costs of service)."

The minimum reserve requirement for the Blacklake Sewer is \$50,000. The reserve balance was established by the Board of Directors when developing the cash reserve policy.

The Finance and Audit Committee's review of the sewer rate stabilization funds may include but not limited to the following discussion points:

- 98% of the sewer revenue is from fixed charges
- It is unlikely that the enterprise funds would experience an unexpected decrease in revenues as stated in the policy
- Current rate covenants are in compliance for Town Sewer
- Would a reduction in the Town Sewer RSF trigger a continuing disclosure event for the Certificate of Participation 2012 bond issue?
- Could this impact current/future S&P ratings or impact future bond issues?

Maryann Goodkind, Bond Counsel for Norton Rose Fulbright and Curt de Crinis, Managing Director of CM de Crinis & Co. will be available via phone conference to answer questions from the Finance and Audit Committee.

RECOMMENDATION

It is recommended that the Committee review the cash reserve policy and provide direction to Staff.

ATTACHMENT

- A. Cash reserve policy

February 3, 2017

ITEM 3

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT
RESOLUTION NO. 2015-1365**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO
COMMUNITY SERVICES DISTRICT AMENDING THE CASH RESERVE
POLICY FOR THE DISTRICT**

WHEREAS, the Board of Directors of the Nipomo Community Services District ("District") intends that the District will at all times have sufficient capital available to meet its operating, replacement, capital projects and debt service payments; and

WHEREAS, the District desires to establish sound financial policies to promote favorable bond ratings in capital markets so that bonds may be used for future financing of District projects; and

WHEREAS, the District desires to reserve capital for unanticipated and unforeseeable expenses; and

WHEREAS, the District desires to establish a buffer should revenue estimates in any year not meet projections; and

WHEREAS, the Cash Reserve Policy has been amended and is hereby presented at this meeting and it is appropriate at this time for the Board of Directors to consider approval of the adoption of the amended Policy.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Nipomo Community Services District:

SECTION 1. The above recitals are true and correct.

SECTION 2. The Cash Reserve Policy, as amended, in the form presented at this meeting attached hereto Exhibit "A" are hereby approved and adopted.

SECTION 3. The officers of the District are hereby directed to do and cause to be done any and all acts and things necessary or proper in order to effectuate the purposes of this resolution.

SECTION 4. This resolution shall take effect immediately.

Upon a motion by Director Eby, seconded by Director Blair, on the following roll call vote, to wit:

AYES: Directors Eby, Blair, Woodson, Gaddis and Armstrong
NOES: None
ABSENT: None
CONFLICTS: None

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The foregoing resolution is hereby adopted this 25th day of February 2015.

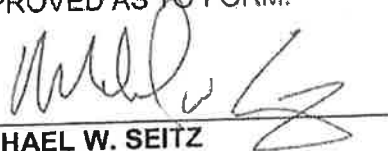

CRAIG ARMSTRONG
President, Board of Directors

ATTEST:



MICHAEL S. LEBRUN
General Manager and Secretary to the Board

APPROVED AS TO FORM:



MICHAEL W. SEITZ
District Legal Counsel

**NIPOMO COMMUNITY SERVICES DISTRICT
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POLICY FOR THE DISTRICT**

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT "A"

PURPOSE

A key element of prudent financial planning is to ensure that sufficient funding is available for current operating, capital and debt service needs. Additionally, fiscal responsibility requires anticipating the likelihood of, and preparing for, unforeseen events. Nipomo Community Services District (District) will strive at all times to have sufficient funding available to meet its operating, capital and debt service obligations as well as to protect its creditworthiness. The District is committed to maintaining a financial structure that provides adequate and predictable revenues at the lowest possible cost to meet forecasted needs and operational objectives.

It should be noted that the District has a Debt Management Policy that establishes parameters for evaluating, issuing and managing the District's debt. The District's Debt Management Policy should be considered prior to committing to any new financial obligations.

The adequacy of the targeted cash reserve year-end balance ranges and/or annual contributions to each fund will be reviewed annually during the budgeting process or when a major change in conditions threatens the reserve levels established within this policy.

OPERATING FUNDS

WATER FUND (FUND #125)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Water Fund cash reserves should be equal to or greater than twelve months (360 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess to the Funded Replacement Water Fund #805.

TOWN SEWER FUND (FUND #130)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Town Sewer Fund cash reserves should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT "A"

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may Approve a transfer of the excess to the Funded Replacement Town Sewer Fund #810.

BLACKLAKE SEWER FUND (FUND #150)

Purpose: To ensure sufficient cash resources are available to fund daily administration, operations and maintenance of providing waste water services. (Funded from rates and charges)

Target Criteria: To meet the District's cash flow needs and unbudgeted expenses, the Blacklake Sewer Fund cash reserves should be equal to or greater than six months (180 days) of annual budgeted operating expenses (not including Funded Replacement).

After adoption of the budget and within 90 days after the end of the fiscal year, the Board of Directors shall review the cash reserves, and if there is excess above the reserve requirement based on the cash reserve balance as of the fiscal year just completed, the Directors may approve a transfer of the excess to the Funded Replacement Blacklake Sewer Fund #830.

WATER RATE STABILIZATION FUND (FUND #128)

Purpose: To serve as a buffer to water rates during any period where there are unexpected increases in operating costs or decreases in revenues. In addition, in a severe drought or extremely wet conditions, it is reasonable to expect that water sales could fluctuate significantly. As such, this fund will absorb these types of fluctuations in operations and help stabilize rates and enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$400,000.

TOWN SEWER RATE STABILIZATION FUND (FUND #135)

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$300,000 set by Bond Indenture Agreement for the Revenue of Certificates of Participation Series 2012.

NIPOMO COMMUNITY SERVICES DISTRICT
CASH RESERVE POLICY
EXHIBIT"A"

BLACKLAKE SEWER RATE STABILIZATION FUND (FUND #155)

Purpose: To serve as a buffer to sewer rates during any period where there are unexpected increases in operating costs or decreases in revenues. This fund should be used to enable smooth or level increases to rates despite uneven increases in underlying costs or variations in annual revenues received. This fund should not be used to artificially suppress rates (i.e. to sustain rates at levels below the costs of service). (Funded by rates and charges)

Target Criteria: Minimum reserve requirement of \$50,000.

BLACKLAKE STREET LIGHTING (FUND #200)

Purpose: To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing street lighting services for Blacklake Village. (Funded by annual assessment to property owners in Blacklake Village)

Target Criteria: Minimum reserve requirement of \$30,000.

LANDSCAPE MAINTENANCE DISTRICT (FUND #250)

Purpose: To ensure sufficient cash resources are available to fund administration, operations and maintenance of providing landscape maintenance to the property owners of Tract 2409. (Funded by annual assessment to property owners in Tract 2409 aka Vista Verde Estates)

Target Criteria: Minimum reserve requirement of \$20,000.

SOLID WASTE (FUND #300)

Purpose: To ensure sufficient cash resources are available to fund solid waste programs, rate stabilization and to cover operating costs in the event that the District may find itself operating solid waste collection, disposal and recycling functions should its business partner now franchised to do these functions be unable to continue to provide these services due to an unforeseen event. This reserve provides assurance that solid waste services remain uninterrupted during an extended disruption to service provider. (Funded by Franchise Fees)

Target Criteria: Minimum reserve requirement of \$115,000.

DRAINAGE (FUND #400)

Purpose: To ensure sufficient cash resources are available to operate and maintain the Nipomo Drainage Maintenance District 76-02 (storm water conveyance system and basin serving Folkert Oaks Mobile Home Park and adjacent properties on Juniper Street). (Funded by a 1% ad valorem property tax rate)

Target Criteria: Minimum reserve requirement of \$50,000.

NIPOMO COMMUNITY SERVICES DISTRICT
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FUNDED REPLACEMENT- WATER (FUND #805)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future water rates. (Funded by water rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study

FUNDED REPLACEMENT- TOWN SEWER (FUND #810)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future town sewer rates. (Funded by Town sewer rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study.

FUNDED REPLACEMENT- BLACKLAKE SEWER (FUND #830)

Purpose: The reserves can be used for both short-term and long-term purposes. The objective of the Funded Replacement Fund is to provide monies for the current and future replacement of existing capital assets as they reach the end of their useful lives. The District recognizes that the Funded Replacement fund may only be sufficient to pay a portion of the full cost of future capital asset replacements and other sources of replacement funding may be needed, such as a bond issuance. This fund will also help normalize the impact of the capital asset replacements on future Blacklake sewer rates. (Funded by Blacklake sewer rates and charges and interest earnings)

Target Criteria: Based on 2007 or current Replacement Study.

NON-OPERATING FUNDS

SUPPLEMENTAL WATER FUND (#500)

Purpose: The revenue generated from the Supplemental Water Capacity Charge accumulates in this fund and its use is restricted to projects, programs and expenditures that reduce the District's reliance on groundwater as its sole water supply. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

NIPOMO COMMUNITY SERVICES DISTRICT
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PROPERTY TAX (FUND #600)

Purpose: District's share of the 1% ad valorem tax on real property collected by the County of San Luis Obispo and distributed to the District pursuant to Article XIII A of the California Constitution. (Funded by property taxes and interest earnings)

Target Criteria: No minimum target is maintained, however, a portion of the annual property tax revenue stream is pledged to pay the annual debt service for the ~~2003 Certificates of Participation Revenue Bond~~, 2013 Certificates of Participation and the 2013 Refunding Revenue Bonds.

WATER CAPACITY CHARGES (FUND #700)

Purpose: The revenue generated from the Water Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest)

Target Criteria: No minimum target is maintained.

TOWN SEWER CAPACITY CHARGES (FUND #710)

Purpose: The revenue generated from the Town Capacity Charge accumulates in this fund and is used to offset new development related capital improvements as outlined by the District's Capital Improvement Plan. (Funded by development capacity charges and interest earnings)

Target Criteria: No minimum target is maintained.

SINKING FUND- TOWN SEWER (FUND #880)

Purpose: The reserves may be used to pay annual debt service payments for the Revenue Certificates of Participation (Southland Wastewater Project) Series 2012. (Funded by Town sewer rates and charges in years 2008- 2012 in anticipation of the Southland Wastewater Treatment Facility Upgrade)

Target Criteria: No minimum target is maintained. Once the reserves in this fund are depleted, the fund will be terminated.