FINANCIAL MANAGEMENT POLICIES

Tualatin Valley Water District

Adopted by Resolution 08-19 on March 20, 2019

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Table of Contents

1 INTRODUCTION

1.1 PURPOSE

The purpose of these Financial Management Policies ("Policies and/or Policy") is to guide the Tualatin Valley Water District's (District's) financial management efforts, including policies related to financial planning, budgeting, debt management, accounting and reporting, business case evaluations, and related matters. These policies affirm the commitment of the District's Board of Commissioners (the "Board") to the practices of sound financial management.

The Government Finance Officers Association (GFOA) recommends adopting financial management policies as a best practice. The GFOA states:

> *Financial policies are central to a strategic, long-term approach to financial management. Some of the most powerful arguments in favor of adopting formal, written financial policies include their ability to help governments:*
>
> 1. *Institutionalize good financial management practices. Formal policies usually outlive their creators, and, thus, promote stability and continuity. They also prevent the need to re-invent responses to recurring issues.*
>
> 2. *Clarify and crystallize strategic intent for financial management. Financial policies define a shared understanding of how the organization will develop its financial practices and manage its resources to provide the best value to the community.*
>
> 3. *Define boundaries. Financial policies define limits on the actions staff may take. The policy framework provides the boundaries within which staff can innovate in order to realize the organization's strategic intent.*
>
> 4. *Support good bond ratings and thereby reduce the cost of borrowing.*
>
> 5. *Promote long-term and strategic thinking. The strategic intent articulated by many financial policies necessarily demands a long-term perspective from the organization.*
>
> 6. *Manage risks to financial condition. A key component of governance accountability is not to incur excessive risk in the pursuit of public goals. Financial policies identify important risks to financial condition.*
>
> 7. *Comply with established public management best practices. The Government Finance Officers Association (GFOA), through its officially adopted Best Practices endorsement of National Advisory Council on State and Local Budgeting (NACSLB) budget practices and the GFOA Distinguished Budget Presentation Award Program, has recognized financial policies as an essential part of public financial management.*

1.2 GOALS AND OBJECTIVES

These Policies sets forth the guidelines for the management of the District's financial affairs. These Policies establish requirements that recognize the District's specific financial, capital, and accounting requirements, its ability to fulfil its financial obligations, and the existing legal, economic, financial conditions. Specifically, the Policies are intended to assist the District in the following:

a) Establishing accounting procedures;
b) Making business decisions for operations and capital expenditures;
c) Evaluating available debt issuance options;
d) Protecting the District's financial resources;
e) Maintaining appropriate capital assets for present and future needs;
f) Promoting sound financial management through accurate and timely information on financial conditions;
g) Protecting and enhancing the District's credit rating(s);
h) Controlling appropriations processes by developing budgets consistent with Oregon local budget law; and
i) Protecting the legal use of the District's financing authority through an effective system of internal controls.

The District's investment policy is maintained separately and approved separately by the Board as required by Oregon law.

1.3 ROLES AND RESPONSIBILITIES

The Chief Financial Officer (CFO) is the designated administrator of these Policies. The CFO shall have the day-to-day responsibility and authority for implementing and managing the District's accounting, debt, and finance programs.

The Board acknowledges that changes in the accounting standards, capital markets and other events may create situations and opportunities that are not contemplated by these Policies. These unexpected events may require adjustments or exceptions to the guidelines of these Policies. In such circumstances, the ability of the District to be flexible is important; however, any authorization granted by the Board to proceed with using a debt instrument not expressly permitted by the Policies must be approved by the Board before the action is taken by the District.

The Board shall review and adopt these Policies at least biennially.

2 LONG-RANGE FINANCIAL PLAN

2.1 PURPOSE

This Policy provides guidance on conducting the District's long-range financial plan (Financial Plan). The Policy includes specific limits and requirements to guide the District's long-range financial plan.

Long-term financial planning combines financial forecasting with strategic planning. The process of developing a long-range financial plan is a highly collaborative and considers future scenarios and helps the District navigate challenges. Long-term financial planning works best as part of an overall strategic plan.

Financial forecasting is the process of projecting revenues and expenditures over a long period, using assumptions about economic conditions, future spending scenarios, and other important variables. Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability considering the District's service objectives and financial challenges.

2.2 GOALS

The District's long-term financial planning process is intended to stimulate discussion and create a long-range perspective for the Board and other decision makers. The Financial Plan assists in avoiding financial challenges; stimulating long-term and strategic thinking; creating a consensus on long-term financial direction; and communicating with internal and external stakeholders.

This Policy sets forth the guidelines for the development and maintenance of the District's Financial Plan. The Policy establishes parameters which recognize the District's specific financial situation and long-term goals. Specifically, the Policy is intended to assist the District in the following:

1. Setting water rates over the long term, thereby avoiding unnecessary and/or unexpected large increases in rates and customer bills.

2. Providing the Board, customers, and the debt market insight into the District's long-term financial needs.

3. Promoting sound financial management through long-range planning.

4. Contributing to the preservation or enhancement of the District's credit rating(s).

5. Informing the biennial operating and capital budget development process by identifying current budgetary needs and considering the phasing of changes to service levels, particularly capital improvement projects.

2.3 REQUIREMENTS

2.3.1 Biennial Preparation of Financial Plan

At least biennially, the CFO shall work with the District's Chief Executive Officer (CEO), Chief Engineer, and other managers to update the District's Financial Plan that forecasts the District's financial needs and financial results for no fewer than 10 years. Once prepared, the CFO shall present the proposed Financial Plan to the Board for its consideration and approval. Once approved, the CFO shall update Appendix A of this document to reflect the financial planning assumptions contained in the Board-approved Financial Plan.

The Financial Plan should consider new and updated information contained in other planning documents such as the District's Water Master Plan, Capital Improvement Plan, and biennial Budget as described further under section 3.4.6 below.

2.3.2 Required Components of Financial Plan

At a minimum, the Financial Plan shall include:

1. Forecast of sources and uses of funds.
2. Forecast of operating expenses.
3. Forecast of capital expenditures.
4. Forecast the use of cash (“pay as you go”) and debt issuance for capital needs
5. Forecast of debt service requirements for existing debt and planned debt.
6. Project the impact of new capital projects on the District’s debt.
7. Designated levels of cash reserves and/or assumptions regarding external credit facilities (e.g., bank lines of credit) in lieu of (or in addition to) cash reserves.
8. Forecast compliance with debt covenants (e.g., additional bonds tests, debt service coverage ratios)
9. Forecast of growth in customers and demands.
10. Forecast of future rate increases and revenues.

2.3.3 Financial Planning Assumptions

Appendix A presents the assumed values to be used in the District’s Financial Plan until another Board-approved financial plan results in its revision. This Appendix will be updated as described in Section 2.3.1 above.

3 DISTRICT BUDGET

3.1 PURPOSE

The District makes program and service decisions to allocate scarce resources for operational and capital needs through its budget process. As a result, the budget process is one of the most important activities undertaken by the District. The quality of decisions resulting from the budget process and the level of their acceptance depends on the budget process that is used.

3.2 GOALS

The District’s budget is intended to help decision makers (including the Board and Budget Committee) make informed choices about the provision of services and capital projects and to promote participation by the District’s stakeholders in the process. The District’s budget provides guidance to the management of the District by:

1. Establishing priorities for work during the budget period.
2. Establishing the legal spending limits for achieving those priorities.

3.3 RESPONSIBILITIES

The Board shall appoint the District’s Budget Officer by resolution. The Budget Officer is responsible for the preparation of the District’s budget in compliance with Oregon local budget law.

3.4 REQUIREMENTS

3.4.1 Biennial Budget Process

The District shall adopt a biennial budget (Budget) consistent with Oregon law. The Budget provides a short-term financial expenditure plan and promote efficiencies. The Budget shall be prepared and adopted in accordance with State legal requirements and conform to standards consistent with nationally recognized practices.

3.4.2 Citizens Budget Committee

Oregon law requires the District to have a citizens' budget committee (Budget Committee). The Budget Committee consists of 10 members: Five citizen members appointed by the Board of Commissioners, and the five commissioners.

The citizen members of the Budget Committee shall be appointed for a term of 4 years. The appointments will be offset by two years so that at most three committee positions will have their terms end at once.

As required by Oregon law, the citizen members of the Budget Committee must be electors of the District. Should a citizen member of the Budget Committee resign, or otherwise become ineligible to serve as a citizen member, the Budget Officer shall notify the Board President of such vacancy. The Board may direct the Budget Officer, the CEO, or the CFO to undertake an effort to fill the vacant position. Vacancies in citizen member positions of the Budget Committee shall be filled by vote of the Board.

Citizen members of the Budget Committee whose term is expiring may elect to reapply to the Budget Committee. The Budget Officer shall advise the Board President of such elections and the Board shall direct the Budget Officer, the CEO, or the CFO to undertake an effort to find candidates for expiring positions. Consistent with Oregon law, the appointment of the citizen members of the Budget Committee is by official action of the Board.

3.4.3 Balanced Budget

The Budget proposed by the Budget Officer to the Budget Committee must present a balance of resources and requirements as required by Oregon law.

3.4.4 Basis of Budgeting

The District prepares its budget on a modified accrual basis. For budget purposes, the District recognizes revenues when they are both measurable and available. Measurable means the amount of the transaction can be determined and revenues are considered available when they are collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Expenses are recognized when the liability is incurred. An exception to this rule on recognizing expenses is debt service. The payment of debt service is recognized when payments are due. Other accounting treatments under generally accepted accounting principles (GAAP) such as depreciation, are not considered expenses under the District's budgetary basis.

3.4.5 Sufficiency of Operating Revenues

The District's budget shall require that operating revenues be sufficient to cover operating expenses (excluding depreciation), and that net revenues are sufficient to comply with bond covenant requirements each year. Sufficiency of operating revenues shall be included in determining water rates, fees, and charges, as described in Sections 4.3.2, 4.3.4, and 4.3.5 below.

3.4.6 Capital Planning

The District shall periodically review and update its Water System Master Plan and Water Management and Conservation Plan to satisfy the requirements for these plans under Oregon administrative rules and statutes. The review and update should consider information contained in other planning documents and provide the District with a coordinated capital plan for system development and an overview of source options to meet growth needs.

Each biennium, the District shall develop and adopt a six-year Capital Improvement Plan (CIP) that details capital projects and fixed asset acquisitions for the District consistent with its current Water System Master Plan, Financial Plan (as described in Section 2 above), fleet and facility plans, asset management plan (as described in Section 10.3.2 below) and capital plans prepared by other agencies with whom the District has contractual or other legal obligations (e.g., the District's joint ventures). The District's Chief Engineer will prioritize proposed projects based on criteria reflecting the direction and policies established by the Board and needs of the District. The District's Chief Engineer will identify significant operating expenses associated with each project that will be required when the asset is placed into service.

Where practical and in the District's best interest, the District may use a blend of cash and debt funding for capital infrastructure. Normal repair and maintenance will be funded only with cash from operations. Debt will be considered as an optional financing mechanism for long-lived improvements and expansions or one-time major system component replacements. As part of the CIP process, the CFO will analyze the proposed capital projects so that each project is funded from an appropriate revenue source.

3.4.7 Supplemental Budgets

When necessary, the Budget Officer may notify the Board of the need to consider a supplemental budget. Supplemental budgets will be prepared and propose action shall be noticed as required by Oregon local budget law.

4 WATER RATES, FEES, AND CHARGES

4.1 PURPOSE

This Policy provides guidance on setting the District's water rates, fees, and charges. The Policy describes the Board's general rate-setting goals and directives.

4.2 GOALS

The District recovers its costs from water sales and other fees and charges assessed on customers. Setting rates, fees, and charges includes a combination of technical analysis and policy implementation. The goal of this Policy is to provide the District's management guidance in setting rates, fees, and charges consistent with the Board's Policy direction.

4.3 REQUIREMENTS

4.3.1 Cost-of-Service Framework

The District's water rates, fees, and charges should reflect the costs of providing the various services to the District's customers, following generally accepted ratemaking methodologies. The cost of service should include operating and capacity costs and send appropriate price signals to customers to encourage the wise use of water.

4.3.2 Water Rates

Water rates should be adjusted annually, with those annual adjustments adopted on a biennial or annual basis depending on financial planning needs (e.g. projected revenue requirements) or specific direction from the Board. The proposed water rate increases will be consistent with the Board-approved Financial Plan discussed in Section 2.3.1 above.

To the extent possible, the District should use the financial planning process to anticipate increases in costs for future years to avoid sudden and/or unexpected rate increases. The District should use the Financial Plan described in Section 2 above to inform its rate-setting process.

Consistent with Oregon law, the District will set its rates by resolution or ordinance after conducting a public hearing, if required.

4.3.3 System Development Charges

System development charges (SDCs) are intended to implement the cost-of-service framework for new and existing customers. SDCs are one-time charges made to new connections to the District's water system to recover growth-related costs. Revenue from SDCs will not fund operations and will only be spent consistent with Oregon law.

SDCs may be updated consistent with Oregon law. SDCs will generally be updated each year during the Board's regular meeting in February with an effective date of March 1st. Unless increased pursuant to a formal SDC study, the District may increase the SDC as allowed under Oregon law based on changes to the *Engineering News Record* Construction Cost Index for Seattle (ENR CCI) as published for the December prior to the SDC adoption. If SDCs are adopted to have an effective date other than March 1, the ENR CCI for another more appropriate month may be used.

4.3.4 Services Provided to Other Utilities

When in the interest of the District's customers, the District may provide services, including the provision of wholesale water, utility billing, meter reading or other water-related services, to other utilities, including joint ventures. In such cases, the rates and fees charged to the other utilities should, at a minimum, recover the estimated cost of providing those services. The provision of services to other utilities will require Board approval, normally through approving the signing of an intergovernmental agreement.

4.3.5 Miscellaneous Fees and Charges

The District assesses many fees and charges for miscellaneous services to customers and meter and service installations. In addition, the District may assess fees for development plan review and inspection, fire hydrant use permits, and penalty fees for non-payment of utility bills and unauthorized use of water or firelines. These charges should be reviewed at least biennially to reflect the cost of providing the services. When the costs of service have changed a material amount, the CFO shall propose changes to the miscellaneous fees and charges to the Board for its consideration. Fees and charges shall be set by the Board by resolution or ordinance.

4.3.6 Forgiveness of Fees and Charges

The CEO or designee may waive all or a portion of *Other Service Charges & Penalties*, as adopted by the Board, if the CEO or designee determines that it is in the equitable and best interest of the District considering the particular circumstances involved in each case.

5 MINIMUM FUND BALANCES AND RESERVES

5.1 PURPOSE

Maintaining fund balances is an important function for the District to operate efficiently over the long run. This policy guides the development of minimum cash balances that directly affect the District's Financial Plan (See Section 2 above), rates and charges (see Section 4 above), and budget (see Section 3 above). The accumulation or use of fund balances and reserves is one mechanism that financial decision in one year can affect future years. This policy provides guidance on making those decisions.

5.2 GOALS

The decision to retain financial resources in fund balance or reserves directly affects:

1. Financial risks to the District from unexpected disruptions to revenue or unexpected expenditures.

2. Water rates required in the current and future years.

3. The District's credit rating(s).

4. Other financial related matters.

Because of the nature of these effects, these Policies provide management guidance from the District's Board in developing the various plans proposed to the Board.

5.3 REQUIREMENTS

5.3.1 Working Capital

As an enterprise fund, the District separately measures its current and non-current assets and liabilities. The District can use this distinction to calculate working capital (i.e., current assets less current liabilities). The measure of working capital indicates the relatively liquid portion of the District's capital, which constitutes a margin or buffer for meeting obligations.

The District should maintain an adequate level of working capital to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to provide stable services and fees. Working capital is a crucial consideration, too, in the Financial Plan (See Section 2 above.)

Credit rating agencies consider the availability of working capital in their evaluations of the District's creditworthiness.

The District shall maintain working capital consistent with the levels of working capital presented in Appendix A, as revised in the future. Working capital shall be at least equal to the two months' operations and maintenance expense (i.e., 60 days cash on hand).

5.3.2 Capital Reserves

The District's rate setting goals include a preference to avoid sudden and/or unexpected rate increases for customers. Capital reserves are one mechanism the District can use to lower the overall costs of acquiring capital assets by saving money early in the planning process.

Capital reserve levels shall be determined through the financial planning process and identified in the District's Financial Plan (see Section 2.3.1 above).

5.3.3 Debt Service Reserves

Debt Service Reserves shall be treated as described in Section 6.3.10.5 below.

6 DEBT FINANCING

6.1 PURPOSE

These Policies provide guidance on the issuance, structure, and management of the District's long- and short-term debt.

6.2 GOALS

The Policy sets forth the guidelines for the issuance of debt and the management of outstanding debt. The Policy establishes certain limits which recognize the District's capital requirements, its ability to repay financial obligations, and the existing legal, economic, financial, and debt market conditions. Specifically, the Policy is intended to assist the District in the following:

1. Evaluating available debt issuance options;
2. Maintaining appropriate capital assets for present and future needs;
3. Promoting sound financial management through accurate and timely information on financial conditions;
4. Protecting and enhancing the District's credit rating(s); and
5. Safeguarding the legal use of the District's financing authority through an effective system of internal controls.

6.3 REQUIREMENTS

6.3.1 Type and Use of Debt

The District shall comply with the all debt limitations imposed by the Oregon constitution, Oregon Revised Statutes (ORS), and Oregon Administrative Rules (OAR). The District will further comply with Security and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB) rules regarding debt issuance, and with IRS regulations for tax-exempt or tax-advantaged debt.

Long-term obligations will not be used to fund operations of the District. The scope, requirements, and demands of the budget, reserve levels, the Financial Plan, and the ability or need to expedite or maintain the programmed schedule of approved capital projects, will also be considered when deciding to issue long-term debt. All borrowings will be authorized by the District's Board.

The District is authorized to issue general obligation bonds and revenue bonds. Except in unique circumstances, the District will primarily rely on revenue bonds to fulfill its debt issuance needs.

6.3.1.1 Revenue Bonds

Revenue bonds are obligations payable from the net revenues of the District's operations. As users of the District facilities will benefit from long-term capital investments in future years, it is appropriate that future revenues pay a share of the costs and more closely match the term of repayment to the expected economic useful life of the project being financed.

Long-term revenue bonds issued by the District shall only be used to finance and refurbish capital facilities, projects and certain equipment where it is determined to be cost effective and fiscally prudent. Revenue bonds will be structured to achieve the lowest possible net cost to the District considering market conditions, terms that are advantageous to the District, risks, the Financial Plan, and the nature and type of security to be provided.

Although revenue bonds are not subject to constitutional or statutory debt limits, the District's debt will not exceed legal or contractual limitations, such as rate covenants or additional bonds tests imposed by then-existing financing covenants. Prior to the issuance of any new revenue bonds, the CFO will cause the impact of future debt service payments on total annual fixed costs to be analyzed.

In addition to the legal and/or contractual requirements associated with revenue bonds, the District will strive to maintain a minimum annual debt service coverage ratio of 2.0 times average annual debt service or another ratio when included in Appendix A.

6.3.1.2 General Obligation Bonds

General obligation bonds are payable from a dedicated tax levy and subject to voter approval. The District shall not generally use general obligation bonds to finance projects, other than projects of a general public nature. In no cases shall the District's outstanding general obligation debt exceed the statutory debt limit. General obligation bonds will mature no later than 30 years from their issue date.

6.3.1.3 Variable Rate Obligations

The District will generally seek to obtain financing through fixed rate obligations. When appropriate, however, the District may choose to issue variable rate obligations. Such variable rate obligations may pay a rate of interest that varies according to a predetermined formula or a rate of interest that is based on a periodic remarketing of securities.

Types of variable rate obligations may include variable rate demand obligations, commercial paper, and floating-rate notes. Each type of variable rate obligation carries its own risks and considerations. Prior to issuing any variable rate debt, the CFO will consult with the District's

Municipal Advisor to evaluate the risks and benefits of a particular type of debt. The Municipal Advisor will also provide a formal recommendation to the Board.

The maximum level of net variable rate obligations incurred shall not exceed the lessor of the District's unrestricted reserves or 20% of outstanding debt. In calculating "net" variable rate debt, the District will consider interest-rate swaps. Prior to considering any interest rate swaps, the District will establish a separate swaps policy.

6.3.1.4 Anticipation Notes

The District may issue short-term notes to be repaid with the proceeds of state or federal grants/loans or other anticipated one-time revenue sources if appropriate for the project and in the best interest of the District. Generally, such grant or revenue anticipation notes ("GANs" or "RANs") will only be issued if there is no other viable source of up-front cash for the project, although the District may elect to utilize such notes if they provide a financial benefit under the Financial Plan. Anticipation notes may be secured by a revenue pledge on parity with or subordinate to the District's long-term revenue bonds. Prior to embarking on selling anticipation notes the District must identify a secondary source of repayment for the notes if expected grant/loan funding does not occur.

6.3.1.5 Lease Financings

Lease obligations are routine and can be an appropriate means of financing certain types of equipment. Generally, however, leases are not appropriate for long-term financing of capital assets such as land or facilities. The CFO should consider leases where lease financing will be more beneficial than funding from reserves or current revenues. The useful life of capital equipment, the term and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered by the CFO in conjunction with "pay-as-you-go" strategies in lieu of lease financing.

6.3.2 Federal, State, or Other Loan Programs

To the extent it benefits the District, the District may participate in federal, state, or other loan programs. The CFO shall evaluate the requirements of these programs to determine if the District is well served by employing them.

For purposes of this Policy, the District shall treat and report these obligations in a manner consistent with other similar debt instruments. To the extent required by the loans or other outstanding debt agreements, the District shall include the financial requirements of these obligations when determining additional bonds test, coverage requirements, etc.

6.3.3 Debt Refinancing

Refunding obligations may be issued to retire all or a portion of an outstanding debt issue. Economic refundings may refinance high-coupon debt at lower interest rates to effectuate debt service savings. Alternatively, the District may conduct a refunding for reasons other than cost savings, such as to restructure debt service payments, to change the type of debt instruments, to release restricted revenues, to ease administrative requirements, or to remove undesirable covenants.

The District will target current refundings (refundings within 90 days of the call date) that produce net present value savings of at least 3% of the refunded par amount of each maturity being refunded. Refundings producing less than 3% net present value savings for each maturity being refunded will be considered for other purposes, such as to restructure debt service payments, to change the type of debt instruments, to release restricted revenues, to ease administrative requirements, or to remove undesirable covenants.

The District will target advance refundings (refundings that occur more than 90 days prior to the call date of the refunded bonds) that produce net present value savings (including cash contributions and foregone interest earnings) of at least 5% of the refunded par amount of each maturity being refunded, and achieve at least 50% escrow efficiency (where escrow efficiency is defined such that negative arbitrage does not exceed 50% of net present value savings). Refundings producing less than 5% net present value savings for each maturity being refunded may be considered for other purposes, such as to restructure debt service payments, to change the type of debt instruments, to release restricted revenues, to ease administrative requirements, or to remove undesirable covenants. (As of January 2018, advance refundings may no longer be issued on a tax-exempt basis.)

The District may also consider alternatives to current and advance refundings (e.g., delayed-delivery refundings) in consultation with its Municipal Advisor and bond counsel. In evaluating such alternatives, the CFO will consider the proposed structure, and establish a required threshold of interest rate savings.

The CFO will monitor refunding opportunities for all outstanding debt obligations on a periodic basis applying established criteria in determining when to issue refunding debt and bring forth the recommended opportunities with appropriate Board actions and related documentation.

6.3.4 Debt Structure Considerations

6.3.4.1 Maturity of Debt

The final maturity of the debt shall not exceed, and preferably be less than, the remaining useful life of the assets being financed, and to comply with Federal tax regulations, the average life of a financing shall not exceed 120% of the average life of the assets being financed.

6.3.4.2 Debt Service Structure

Debt service payments for any new money debt issue will generally be structured to create approximately level debt service payments over the life of the debt. Exceptions are permitted for refunding debt that will have varying principal repayments structured to fill in the gaps created by refunding specific principal maturities. The CFO may also structure the amortization of principal to wrap around existing obligations or to achieve other financial planning goals. Deferring the repayment of principal should be avoided except in select instances where it will take time before project revenues are sufficient to pay debt service.

6.3.4.3 Lien Structure

Senior and subordinate liens may be used to maximize the most critical constraint, either cost or capacity, thus allowing for the most beneficial leverage of revenues.

6.3.4.4 Capitalized Interest

The District may elect to fund capitalized interest in connection with the construction of certain projects, if revenue from such projects is not initially available to pay debt service on related debt. Additionally, the District may consider funding capitalized interest if such a strategy will minimize the financial impact to of such borrowing on District ratepayers.

6.3.4.5 Reserve Funds

A reserve fund for a debt issuance may be required for credit rating or marketing reasons. If required, such reserve fund can be funded with:

1. The proceeds of a debt issue,
2. The reserves of the District, or
3. A surety policy.

A cash reserve fund will be invested pursuant to the investment restrictions associated with the respective financing documents and the District's separate investment policy. For each debt issue, the CFO will evaluate whether a reserve fund is required for credit rating or marketing purposes and the benefits of funding or maintaining the reserve requirement with cash or a surety policy, in addition to determining the benefits of borrowing the necessary funds or using cash reserves.

6.3.4.6 Redemption Provisions

In general, the District will have the right to optionally redeem debt at par no later than 10 1/2 years after issuance. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.

6.3.4.7 Credit Enhancement

Credit enhancement (e.g., bond insurance or letters of credit) on District financings will only be used when net debt service is reduced by more than the cost of the enhancement. The District will evaluate the availability and cost/benefit of credit enhanced debt versus unenhanced debt prior to issuing any debt.

6.3.5 Method of Sale

The District will select a method of sale that is the most appropriate when considering the financial, market, transaction-specific and District-specific conditions and advantages. There are three basic methods of sale: Competitive Sale, Negotiated Sale, and Direct Placement. Each type of debt sale has the potential to provide the lowest cost given the right conditions. The CFO will select the most appropriate method of sale considering the prevailing financial, market and transaction-specific conditions. If a negotiated sale is expected to provide overall benefits, the senior managing underwriters and co-managers shall be selected through the process described below.

6.3.6 Investment of Proceeds

Investment of proceeds are subject to the District's separately adopted Investment Policy. The District shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest proceeds of a financing. The District shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of financing-related funds. The primary investment objectives are safety, liquidity, and yield. The District's independent investment advisor must be a registered Investment Advisor. The District shall diversify invested proceeds to reduce risk exposure to providers, types of investment products and types of securities held. The District will require that all fees resulting from investment services or sale of products to the District be fully disclosed to the District (including fees paid by third parties) to avoid actual or perceived conflicts of interest on whether the investments are being purchase at a fair market price, consistent with the District's Investment Policy.

6.3.7 Credit/Ratings Objectives

The District's objective is to maintain an appropriate credit rating (or ratings) considering the District's financial condition as a way of balancing financing costs and cash flow. The CFO shall be responsible for implementing and managing the District's credit rating agencies relations program. This effort shall include providing the rating agencies with the District's annual budget, financial statements and other information they may request. Full disclosure of operations will be made to the credit rating agencies. The CFO shall also coordinate periodic meetings with the rating agencies and communicate with them prior to each debt issuance. The District will evaluate the benefits of a higher rating at lower debt cost versus a lower rating that provides more debt capacity and flexibility.

6.3.8 Investor Relations

The CFO shall be responsible for implementing and managing the District's investor relations program. The CFO will also be responsible for responding to inquiries from institutional and retail investors, and for proactively communicating with such investors if necessary. Such communication shall be made only as permitted under applicable federal securities laws, in consultation with the District's bond counsel.

6.3.9 Tax and Arbitrage Rebate Compliance

The District will comply with all financing covenants to maintain the validity of the issuance of debt, including, but not limited to tax-exemption, Arbitrage Rebate compliance, insurance provisions, reporting and monitoring requirements. Any instance of noncompliance will be reported to the Board.

6.3.9.1 Post Issuance Tax Compliance

6.3.9.1.1 External Advisors and Documentation

The District shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the debt issuance process to identify requirements and to establish procedures necessary or appropriate so that the bonds or other obligations will continue to qualify for tax-exempt status, if applicable. Those requirements and procedures shall be documented in the tax certificate and agreement ("Tax Certificate") and/or other documents finalized at or before issuance of the bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and certain other applicable post-issuance requirements of federal tax law throughout (and, in some cases, beyond) the term of the bonds. This shall include, without limitation, consultation in connection with any potential changes in use of bond-financed or refinanced assets.

The District may engage expert advisors (each a "Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of bond proceeds, unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of bonds. Unless otherwise provided by the transaction documentation relating to the bonds, unexpended bond proceeds shall be segregated from other funds of the District, and the investment of bond proceeds shall be managed by the District. The District shall prepare (or cause to be prepared) regular, periodic statements regarding the investments and transactions involving bond proceeds.

6.3.9.1.2 Arbitrage Rebate and Yield

Unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of bonds, the CFO, or persons reporting to the CFO, shall be responsible for:

1. Either (1) engaging the services of a Rebate Service Provider and, prior to each rebate calculation date, causing the trustee or other financial institution to deliver periodic statements concerning the investment of bond proceeds to the Rebate Service Provider, or (2) undertaking rebate calculations themselves and retaining and obtaining periodic statements concerning the investment of bond proceeds;

2. Providing to the Rebate Service Provider additional documents and information reasonably requested;

3. Monitoring efforts of the Rebate Service Provider;

4. Assuring payment of required rebate amounts, if any, no later than 60 days after each five-year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed;

5. During the construction period of each capital project financed in whole or in part by bonds, monitoring the investment and expenditure of bond proceeds and consulting with the Rebate Service Provider to determine compliance with any exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months, or two years, as applicable, following the issue date of the bonds; and

6. Retaining copies of all arbitrage reports, investment records, and trustee statements.

6.3.9.1.3 Use of Bond Proceeds and Bond-Financed or Refinanced Assets

The CFO, or persons under the supervision of the CFO, shall be responsible for:

1. Monitoring the use of bond proceeds (including investment earnings and reimbursement of expenditures made before bond issuance) and the use of the financed asset throughout the term of the bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the bonds;

2. Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of bonds (including investment earnings and reimbursement of expenditures made before bond issuance), including a final allocation of the bond proceeds documented on or before the later of 18 months after an

expenditure is paid or the related project is placed in service, and in any event before the fifth anniversary of the bond issuance;

3. consulting with bond counsel, other legal counsel, and other advisors in the review of any change in use or transfer of bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Certificate relating to the bonds;

4. To the extent the District discovers that any applicable tax restrictions regarding use of bond proceeds and bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel, other legal counsel, and other advisors to determine a course of action to preserve the tax-exempt status of the bonds (if applicable).

6.3.10 Disclosure Documents

The District is required to provide disclosure, generally in the form of an official statement, relating to each public offering of debt. The District is responsible for providing complete and accurate information to be included in the official statement and is responsible for the overall content of the document, although it may rely on an external party (e.g., bond counsel or disclosure counsel) to assist in the creation of the document.

6.3.10.1 Primary Disclosure Policies

The CFO will serve as the focal point for information requests relating to official statements to be used in the initial offering of the District's borrowings. The CFO will request information required for disclosure to investors and rating agencies from relevant departments and will sign a statement attesting to the accuracy and completeness of the information therein. The Board will be provided with a copy of the official statement for each issue of debt.

6.3.10.2 Continuing Disclosure Policies

Under Rule 15c2-12 of the Securities and Exchange Commission, adopted under the Securities Exchange Act of 1934, the District is required to enter into a contract to provide "secondary market disclosure" relating to each publicly offered bond issue (referred to as an "undertaking"). The CFO shall review any proposed undertaking to provide secondary market disclosure and negotiate any commitments therein. Additionally, bonds sold via the direct placement method may have specific disclosure requirements required by the purchaser.

The District will ensure compliance with all continuing disclosure requirements as part of its ongoing debt program. The CFO, or persons under the supervision of the CFO, shall have a clear understanding of the continuing disclosure requirements for each bond transaction.

Internal procedures shall be developed that identify the information that is obligated to be submitted in an annual filing, the dates on which filings are to be made, list the events required to be disclosed, and identify the person responsible for making the filings.

The Comprehensive Annual Financial Report (CAFR) may fulfill annual financial information filing obligations. The information provided in a CAFR does not have to be replicated when filing with the Electronic Municipal Market Access (EMMA) portal. If the District agrees to furnish information that is outside the scope of its CAFR, that information may be included as a supplement to the CAFR when filing with EMMA. On its completion, the CAFR should be immediately submitted to EMMA.

Each time the District issues new bonds, the CFO (in consultation with bond counsel and the municipal advisor) will review the District's compliance with prior continuing disclosure undertakings and make any necessary corrective filings.

In addition to continuing disclosure undertakings associated with public bond offerings as required by SEC Rule 15c2-12, the District may also be subject to ongoing reporting requirements associated with other debt obligations, such as bank loans. The CFO shall also be responsible for ensuring compliance with such reporting requirements.

6.3.11 Consultants and Advisors

6.3.11.1 Municipal Advisor

The District will retain an independent registered municipal advisor (MA) through a competitive process administered by the CFO at least every five years. Selection of the District's MA should be based on the following:

1. Experience in providing consulting services to issuers similar to the District;
2. Meets all regulatory requirements;
3. Knowledge and experience in structuring and analyzing large complex debt issues;
4. Ability to conduct competitive selection processes to obtain related financial services (including underwriters and other service providers);
5. Experience and reputation of assigned personnel; and
6. Fees and expenses.

The District expects that its MA will provide objective advice and analysis, maintain confidentiality of District financial plans, and fully disclose any potential conflicts of interest.

6.3.11.2 Bond Counsel

For all debt issues, the District will engage and retain an external bond counsel through a competitive process administered by the CFO at least every five years. Where required by the lender and/or investors, debt issued by the District will include a written opinion by a nationally recognized bond counsel affirming that the District is legally authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. Bond Counsel may also draft the Official Statement in lieu of having a separate disclosure counsel.

6.3.11.3 Disclosure Counsel

The District may engage and retain, when appropriate, Disclosure Counsel through a competitive process administered by the CFO to prepare official statements for debt issues. Disclosure Counsel will be responsible for providing that the official statement complies with all applicable rules, regulations, and guidelines. Disclosure Counsel will be a nationally recognized firm with extensive experience in public finance.

6.3.11.4 Underwriters

For negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance. The CFO will establish a pool of qualified underwriters through a competitive process at least every five years and may designate one or more firms as eligible to be senior managers and one or more firms as eligible to be co-managers. Criteria to be used in the appointment of qualified underwriters will include:

1. Quality and applicability of financing ideas;
2. Demonstrated ability to manage complex financial transactions;
3. Demonstrated ability to structure debt issues efficiently and effectively;
4. Demonstrated ability to sell debt to institutional and retail investors;
5. Demonstrated willingness to put capital at risk;
6. Experience and reputation of assigned personnel;
7. Past performance and references; and
8. Fees and expenses.

If an underwriting pool is established, the CFO will regularly monitor the performance of the members of the underwriting pool and recommend changes as appropriate.

6.3.12 Reporting Requirements

The CFO will report to the Board on a quarterly basis the following information:

1. A summary of outstanding debt obligations to include the series name, original amount of issuance, outstanding principal amount, issue date, maturity dates, interest rates, and annual debt service;
2. The amount of the net variable rate obligation and percentage as compared to outstanding debt, if applicable;
3. Other considerations if applicable, including (but not limited to): refunding opportunities, performance of variable rate obligations, and/or proposed new debt issuances.

7 ACCOUNTING STANDARDS AND FINANCIAL REPORTING

7.1 PURPOSE

This Policy provides guidance to management on the accounting standards to be used by the District and the expectations for financial reporting.

7.2 GOALS

Providing accurate, transparent, and reliable accounting of the District's financial performance is important to the public, investors, and other District stakeholders. Furthermore, the timely disclosure of the District's financial performance helps those stakeholders better assess the District's financial condition. These policies will provide management guidance it needs to produce and disseminate timely financial statements that meet those needs.

7.3 REQUIREMENTS

7.3.1 Basis of Accounting

The District's financial statements are maintained on the flow of economic resources measurement focus using the accrual basis of accounting and accounting principles applicable to governmental enterprise funds. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

The District shall prepare its financial statements using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or "GAAP") issued by the Governmental Accounting Standards Board (GASB) applicable to governmental entities that use proprietary fund accounting.

7.3.2 Reporting Entity

GAAP require that the reporting entity include: (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District is governed by its Board of Commissioners whose members are elected directly by the citizens residing within the District. As such, the District is, by definition, a primary government.

7.3.3 Capitalization Standards

The District capitalizes expenditures on assets that have a useful life exceeding one year and an original cost of $7,500 or more. To be capitalized, an expenditure must meet the other capital-asset requirements under GAAP.

7.3.4 Depreciable Lives and Depreciation Rates

The District shall determine depreciation rates for classes of assets and, when appropriate, individual assets, based on the expected useful lives of the assets considering local conditions within the District. Estimates of the depreciable lives shall be based on engineering assumptions for the District and operational experience. Unless otherwise more appropriate, the depreciation rates shall be calculated to recover the original costs using a straight-line basis over the depreciable life of an asset.

7.3.5 Accounting for Joint Ventures

The District participates in various joint ventures with neighboring water providers. In some cases, the District acts as the managing agency for joint ventures. When acting as the managing agency and authorized by the intergovernmental agreement (IGA) that forms the joint venture, the District will prepare separate financial statements for the joint venture. When appointed as the managing agency and required by the IGA that forms the joint venture, the District's Board and Budget Committee will also serve as the local budget law authority for the joint venture. In those cases, the Board will adopt budgets consistent with the requirements of the joint venture(s) to enable the District to fulfill its duties and the managing agency.

7.3.6 Valuation of Inventory

Inventory of materials and supplies is stated at cost using average cost and is charged against operations as used.

7.3.7 Indirect Cost Allocation Plan

The CFO will cause the District to maintain an indirect cost allocation plan suitable for allocating overhead costs to the various joint ventures and contracts the District manages and the capital projects it undertakes. The CFO may engage the services of professional consultants from time-to-time to review and update the indirect cost allocation plan.

7.3.8 Financial Reports

7.3.8.1 Monthly Financial Reports

The CFO shall provide the Board with unaudited reports on the District's financial performance each month. These reports shall be available to the Board within 30 days of the close of the month. Subsequent adjustments to prior months financial reports are expected to account for routine month-end and year-end closing activities.

7.3.8.2 Comprehensive Annual Financial Report

Although not required by law, the District embraces the recommendation of the Government Finance Officers Association recommendation to issue its financial reports in the form of a Comprehensive Annual Financial Report (CAFR) within 180 days of the close of the fiscal year.

8 INTERNAL CONTROLS

8.1 PURPOSE

Internal controls are those management means used to mitigate the risk that the District's economic resources are not properly used. Internal controls focus on operational effectiveness and efficiency, fraud preventions, reliable financial reporting, and compliance with laws, regulations, and policies. Policies on internal controls are important to managing the District's risks.

8.2 GOALS

The goals of these Policies are to:

1. Manage the risk that financial transactions bring to the District.

2. Establish the legal authority of the procurement function within the District.

3. Simplify, clarify, and reflect the District's approach to maintaining internal controls.

4. Enable uniform internal controls throughout the District.

5. Build public confidence in the District's stewardship of its economic resources and management of its risks.

6. Safeguard the integrity of the District's procurement and accounting systems and protect against corruption, fraud, waste, and abuse.

8.3 REQUIREMENTS

8.3.1 Purchasing Goods and Services for the District

The District purchases various goods and services from many vendors with differing business models. The District's internal controls are intended to govern those procurement matters subject to the District's Local Contract Review Board Rules. The procurement rules and the internal controls that assess compliance with those rules are intended to:

1. Provide for the fair and equitable treatment of everyone who deals with procurement.

2. Increase efficiency, economy, and flexibility in the District's internal controls activities and maximize the District's purchasing power.

3. Foster effective broad-based competition from the District's suppliers.

There are three requirements to procure goods or services for the District. These requirements are:

1. Compliance with formal procurement rules. To achieve compliance with state law and the Local Contract Review Board Rules, all purchases must follow District procurement rules.

2. Proper authorization for the purchase. The District has established dollar limits that provide varying levels of authorization for employees to purchase on behalf of the District. This Policy formalizes the requirements for receiving and/or confirming the authorization for purchase.

3. Approval requirements for payments. These policies set forth the approval requirements.

The CFO shall maintain and publish guidelines and rules to facilitate the above-listed objectives.

8.3.1.1 Purchasing Limits

8.3.1.1.1 Authorization for Purchases

In consultation with the CEO, the CFO shall periodically establish and publish purchasing limits for employees within the District. The purchasing limits will include the limits for purchases by contract, purchasing card, petty cash, and all other payment methods.

8.3.1.1.2 Approval of Purchases

All purchases are to be approved by the supervisor or manager of the purchaser, including petty cash reimbursements, unless the purchase is being charged to the budget of another department. In that case, the supervisor or department manager that is responsible for the budget shall approve the request.

Supervisors and managers have approval authority to the limits as published by the CFO. If the supervisor is unavailable, another supervisor in the department can approve. If the department manager or another supervisor within the department is unavailable, another department manager can approve the purchase request. Any transaction exceeding the approval authority of the department manager must be approved by the CEO or by the manager acting in capacity (AIC) for the CEO. The CFO will serve as the approval authority for all purchases of the CEO.

Master service agreements, task-order agreements, indefinite delivery/indefinite quantity agreements, and other similar agreements that do not have a specific dollar amount must be approved by the CEO. Approval authority for task orders issued based on these agreements are established by the purchasing limits published by the CFO.

8.3.1.2 Purchase Orders

Purchase orders are required for all purchases more than $1,000 unless otherwise authorized in advance by the CFO or CEO.

8.3.1.3 Splitting of Purchases

Purchases may not be split into multiple transactions to avoid the application of these Policies. Splitting a purchase is the act of creating two purchases that have one purpose with the intent of avoiding requirements of these Policies and the associated management controls. Intentionally splitting a purchase to defeat the internal controls can be gross misconduct and subject the offender to sanctions up to, and including, termination for dishonesty.

8.3.2 Obligations (Contracts, Leases, Etc.)

The District is required to track its contracts, leases, and other obligations as part of its financial reporting requirements. The CFO shall develop and maintain a process of recording these obligations with sufficient detail to report the District's obligations.

9 BUSINESS CASE EVALUATIONS

9.1 PURPOSE

The District strives to reduce costs and improve service quality. A proper evaluation of how to commit the District's resources in an alternative manner has the potential to both reduce costs and improve service quality.

Often there are multiple options for delivering a service. The business case evaluation for service delivery alternatives should be done thoroughly and objectively with the goal of acting as a steward for the public financial resources.

A business case evaluation captures the rationale for undertaking a specific project or task. It should be presented in a well-structured written document but may also be a short verbal agreement or presentation. Business case evaluations are used to guide the expenditure of resources, so that the expenditures are known or expected to support a commensurate business need of the District.

9.2 GOALS

The goal of these Policies is to promote efficient resource allocation through well-informed decision-making by the District. These Policies shall provide guidance for conducting benefit-cost and cost-effectiveness analyses. These Policies shall also provide specific guidance on the discount rates to be used in evaluating alternative programs at the District whose benefits and costs are distributed over time.

The economic resource available to the District are public resources that require prudent management. The Policies on business case evaluations are intended to:

1. Protect the District's economic resources by forecasting the expected returns from the District's efforts and investments.

2. Provide a common framework for evaluating business decisions throughout the District consistent with the District's fundamental economic and financial circumstances.

9.3 REQUIREMENTS

9.3.1 Business Case Evaluation Guidelines

The CFO shall periodically publish guidelines for the conduct of business case evaluations at the District. These guidelines shall provide a framework for the consistent evaluation of alternatives throughout the District and require the use of appropriate financial and economic techniques.

9.3.2 Least-Cost Requirement

As part of its business case evaluation, the District shall evaluate alternatives to identify the alternative that meets the service level at the least cost. In cases where the service level can vary, the District shall consider both the costs and the benefits in its evaluation.

The guidelines published by the CFO described in Section 9.3.1 above may exclude certain fixed costs of the District from the evaluation when including those fixed costs would result in an improper business decision based on the District's least-cost requirement Policy.

9.3.3 Discount Rates

The CFO shall periodically publish appropriate Discount rates to be used in conducting business case evaluations. The Discount rates shall reflect the CFO's best estimate of the District's cost of capital for varying terms.

10 OTHER BOARD FINANCIAL GOALS AND OBJECTIVES

10.1 PURPOSE

The Board has adopted other financial goals and objectives that do not fall within one of the categories listed above. The Policies related to those goals and objectives are included in this section.

10.2 GOALS

These Policies provide additional guidance to management on other Board financial goals and objectives.

10.3 REQUIREMENTS

10.3.1 Water Supply

10.3.1.1 Purchased Water

The District shall purchase water for distribution in a manner that balances the need to minimize cost and maximize water quality and reliability for its customers.

10.3.1.2 Multiple Sources of Water Supply

The District is committed to resiliency and reliability of service. In achieving that goal, the District will have access to multiple sources of supply with the goal to provide redundant supplies to all customers.

10.3.2 Asset Management Plan

Renewing and replacing the District's infrastructure is an ongoing task. The District shall maintain an Asset Management Plan that protects the value of the District's infrastructure and maximizes the value of the District's expenditures on operations and maintenance.

The District's Asset Management Plan shall make sure that planned maintenance can be conducted and capital assets (pumps, motors, pipes, fleet, information technology equipment, etc.) can be repaired, replaced, or upgraded on time. The District's Asset Management Plan should address the:

1. Current state of the District's assets.
2. District's required "sustainable" level of service.
3. Assets that are critical to sustained performance.
4. District's minimum life-cycle costs

The Asset Management Plan should provide the District critical information on capital assets and timing of investments. The Asset Management Plan should include an inventory of critical assets, evaluation of their condition and performance, and strategies to maintain, repair, and replace assets and to fund these activities.

The Asset Management Plan should result in the management of infrastructure capital assets to optimize the total cost of owning and operating these assets while prudently managing risks and delivering the desired service levels. The District shall use the Asset Management Plan to pursue and achieve sustainable infrastructure. The Asset Management Plan shall be used in the District's Capital Planning (see Section 3.4.6 above).

APPENDIX A

Financial Plan Assumptions

INTRODUCTION

Section 2.3.1 of the District's Financial Management Policies requires the District's Chief Financial Officer to update the financial planning assumptions to be consistent with the District's approved Financial Plan. The Board of Commissioners approved the District's 2023-2025 Financial Plan by adopting Resolution 11-23 on July 19, 2023. This Appendix documents the financial planning assumptions.

DEBT CAPACITY

The 2023-2025 Financial Plan includes the assumption that the District will issue approximately $616 million in total debt by FY2025, with $589.7 million in net debt proceeds available for funding the District's capital expenditures. The planned total debt issuances are less than the District's total $700 million limit established by District Ordinance 01-19 and District Ordinance 01-22.

ISSUANCE COSTS

Issuance costs for future revenue bonds shall be estimated for each issuance based on the following:

- 0.75% of the par amount for each issuance through FY2025, and
- 1.50% of the par amount of all issuances thereafter.

TERM

The term assumed for future revenue bond issues shall be 30 years. The term for federal or state loan programs shall be the maximum allowed within the program unless a shorter duration is in the financial interest of the District.

INTEREST RATES

Presented below are the assumed interest rates to be included in the financial plan:

Fiscal Year	Revenue Bond Issues	Interest Earnings *(on Reserve Funds)*
2024	5.50%	Varies by type
2025	5.50%	Varies by type
2026	5.50%	1.50%
2027	5.50%	1.50%
2028	5.50%	1.50%
2029	5.50%	1.50%
2030	5.50%	1.50%
2031	5.50%	1.50%
2032	5.50%	1.50%
2033	5.50%	1.50%

DEBT SERVICE RESERVE FUND

Depending on market conditions, a debt service reserve may not be required. However, the Financial Plan shall assume a debt service reserve as the minimum of:

1. The maximum annual debt service for a future revenue bond
2. 125% of the average annual debt service for a future revenue bond issue
3. 10% of the par amount of a future revenue bond issue.

DEBT SERVICE COVERAGE RATIOS

The target minimum for the debt service coverage ratios used in the Financial Plan shall be:

1. 2.0x by including SDCs in gross revenues.
2. 1.5x by excluding SDCs from gross revenues.

ADDITIONAL BONDS TEST

The Financial Plan shall exceed the following additional bonds test ratios:

1. 1.3x by including SDCs in gross revenues.
2. 1.15x by excluding SDCs from gross revenues.

NET LEVERAGE RATIO

The projected net leverage ratio in the Financial Plan shall not exceed 8.0x for two or more consecutive years and shall not exceed a net leverage ratio of 7.0x for more than four consecutive years.

MINIMUM CASH BALANCES

The Financial Plan shall include 250 days of forecast annual operations and maintenance expense as the minimum cash balance. This minimum is in addition to any balances required in a debt service reserve account.