SPECIAL MEETING
BOARD OF DIRECTORS
THURSDAY, JANUARY 11, 2018 – 6:00PM
3 DAIRY LANE, BELMONT CALIFORNIA

AGENDA

1. OPENING
   A. Call to Order
   B. Establishment of Quorum
   C. Pledge of Allegiance

2. PUBLIC COMMENT
Members of the public may now address the Board on any item of interest within the jurisdiction of the Board but not on its agenda today. In compliance with the Brown Act, the Board cannot discuss or act on items not on the agenda. Please complete a speaker's form and give it to the District Secretary. Each speaker is limited to three (3) minutes.

3. AGENDA REVIEW: ADDITIONS/DELETIONS

4. WORKSHOP
   A. Discuss financial matters of the MPWD, including:
      1. Report on Development Revenues Compared to CIP and Water Conservation Program Expenditures for the period July 1, 2015 through November 30, 2017
      2. Preliminary FY 2017/2018 Mid-Year Budget Review
      3. Cash Reserve Policy and Options, including PARS PRSP (Pension Rate Stabilization Program)
      4. Debt Management Policy
      5. Preparation for FY 2018/2019 Operating and Capital Budget, including Water Rates, and Organizational Succession Planning
   B. Other Topics for the Good of the Order

5. ADJOURNMENT

This agenda was posted at the Mid-Peninsula Water District's office, 3 Dairy Lane, in Belmont, California, and on its website at www.midpeninsulawater.org.

ACCESSIBLE PUBLIC MEETINGS
Upon request, the Mid-Peninsula Water District will provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation (including auxiliary aids or services), to enable individuals with disabilities to participate in public meetings. Please contact the District Secretary at (650) 591-8941 to request specific materials and preferred alternative format or auxiliary aid or service at least 48 hours before the meeting.

AGENDA ITEM NO. 4.A.1.

DATE: January 11, 2018

TO: Board of Directors

FROM: Tammy Rudock, General Manager
Candy Pina, Administrative Services Manager

SUBJECT: REPORT ON DEVELOPMENT REVENUES COMPARED TO MPWD CIP AND WATER CONSERVATION PROGRAM EXPENDITURES FOR THE PERIOD JULY 1, 2015 THROUGH NOVEMBER 30, 2017

RECOMMENDATION

Receive report on development revenues—Water Capacity Charges and Water Demand Offset Fees—compared to MPWD CIP and Water Conservation Program expenditures for the period July 1, 2015 through November 30, 2017.

FISCAL IMPACT

None.

DISCUSSION

The attached report is one that compares development impact fee revenues to MPWD CIP and Water Conservation Program expenditures for the period July 1, 2015 through November 30, 2017.

The report does not include all of the development revenues "received" during the time period, but rather projects "recognized" in the MPWD's accounting system as completed were identified, in accordance with GAAP (Generally Accepted Accounting Principles).

While it is not required reporting, it provides an analytical overview of development's proportional contribution to MPWD capital improvement and water conservation and public outreach/education programs. It will be updated on a fiscal year basis and reported to the Board by September 30th of each year. The report will be posted at the MPWD website.

Attachment: Report on Development Fees Compared to CIP and Water Conservation Program Expenditures

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BOARD ACTION: APPROVED:_____ DENIED:_____ POSTPONED:_____ STAFF DIRECTION:_____

UNANIMOUS_____ WARDEN_____ VELLA_____ LINVILL_____ ZUCCA_____ STUEBING_____

REPORT ON DEVELOPMENT FEES COMPARED TO CIP AND WATER CONSERVATION PROGRAM EXPENDITURES

	Jul 2015 - Jun 2016	Jul 2016 -Jun 2017	Jul - Nov 2017	Total	% of Total Exp
WATER SYSTEM CAPACITY CHARGES					
1804 Miller Avenue	9,375.00			9,375.00	
2847 San Juan Boulevard	9,375.00			9,375.00	
2830 San Juan Boulevard	9,375.00			9,375.00	
1717 Notre Dame Avenue	9,375.00			9,375.00	
1808 Miller Avenue	9,375.00			9,375.00	
2113 Coronet Drive	9,375.00			9,375.00	
1710 Valley View	9,375.00			9,375.00	
360/370/380 Industrial Road	15,625.00			15,625.00	
2940 Alhambra Drive	9,375.00			9,375.00	
2177 Carlmont Drive		67,500.00		67,500.00	
3826 Naughton Avenue		9,375.00		9,375.00	
Davis Drive (CSUS)			81,250.00	81,250.00	
2902 San Juan Boulevard			9,375.00	9,375.00	
905 South Road			9,375.00	9,375.00	
2904 San Juan Boulevard			3,053.38	3,053.38	
2906 San Juan Boulevard			5,688.62	5,688.62	
1401 Shoreway Road			125,000.00	125,000.00	
2828 Monte Cresta Drive			9,375.00	9,375.00	
2128 Pullman Avenue			9,375.00	9,375.00	
TOTAL WATER SYSTEM CAPACITY CHARGES	**90,625.00**	**76,875.00**	**252,492.00**	**419,992.00**	**17%**
CAPITAL IMPROVEMENT PROGRAM EXPENDITURES					
AMI Meter Change Out Program	456,818.95	513,972.15		970,791.10	
Karen Road Water Main Replacement - CIP	32,321.78			32,321.78	
Hallmark Tank Structural and Seismic Retrofit - CIP	41,067.97			41,067.97	
Dekoven Tanks Structural and Seismic Retrofit - CIP	51,157.13			51,157.13	
Folger Pump Station Demolition - CIP	24,963.44			24,963.44	
Buckland Tank Replacement Project - CIP	26,689.37			26,689.37	
Alameda de las Pulgas Water Main Replacement Project - CIP	104,054.71	243,708.00		347,762.71	
Francis Improvements			9,883.31	9,883.31	
Academy Improvements			6,318.84	6,318.84	
TOTAL CAPITAL IMPROVEMENT PROGRAM EXPENDITURES	737,073.35	757,680.15	16,202.15	1,510,955.65	
2016 COP DEBT SERVICE	0.00	330,133.34	686,400.00	1,016,533.34	
TOTAL	**737,073.35**	**1,087,813.49**	**702,602.15**	**2,527,488.99**	
VARIANCE	**-646,448.35**	**-1,010,938.49**	**-450,110.15**	**-2,107,496.99**	
WATER DEMAND OFFSET FEES					
1804 Miller Avenue	1,217.00			1,217.00	
2847 San Juan Boulevard	1,217.00			1,217.00	
2830 San Juan Boulevard	1,217.00			1,217.00	
1717 Notre Dame Avenue	1,217.00			1,217.00	
1808 Miller Avenue	1,217.00			1,217.00	
2113 Coronet Drive	1,217.00			1,217.00	
1710 Valley View	1,217.00			1,217.00	
360/370/380 Industrial Road	4,057.00			4,057.00	
2940 Alhambra Drive	1,217.00			1,217.00	
2177 Carlmont Drive		8,760.00		8,760.00	
3826 Naughton Avenue		633.00		633.00	
Davis Drive (CSUS)			10,547.00	10,547.00	
2902 San Juan Boulevard			633.00	633.00	
905 South Road			633.00	633.00	
2904 San Juan Boulevard			442.18	442.18	
2906 San Juan Boulevard			823.82	823.82	
1401 Shoreway Road			16,227.00	16,227.00	
2828 Monte Cresta Drive			1,217.00	1,217.00	
2128 Pullman Avenue			633.00	633.00	
TOTAL WATER DEMAND OFFSET FEES	**13,793.00**	**9,393.00**	**31,156.00**	**54,342.00**	**25%**
WATER CONSERVATION PROGRAM EXPENDITURES					
6301 · Water Conservation Program	4,540.79	3,588.79	1,875.96	10,005.54	
6302 · School Conservation Program	24,403.42	12,438.62	10,129.13	46,971.17	
6303 · Public Outreach & Education	32,207.99	27,190.56	3,294.37	62,692.92	
6305 · HET (High Efficiency Toilet)	13,068.19	14,015.11	1,482.44	28,565.74	
6306 · Washing Machine Rebates	13,447.39	29.17	0.00	13,476.56	
6307 · Lawn-Be-Gone Rebates	31,075.61	20,895.61	1,438.95	53,410.17	
6308 · Rain Barrels Rebate	726.54	1,000.49	28.67	1,755.70	
TOTAL WATER CONSERVATION PROGRAM EXPENDITURES	**119,469.93**	**79,158.35**	**18,249.52**	**216,877.80**	
VARIANCE	**-105,676.93**	**-69,765.35**	**12,906.48**	**-162,535.80**	

MID-PENINSULA WATER DISTRICT

AGENDA ITEM NO. 4.A.2.

DATE: January 11, 2018

TO: Board of Directors

FROM: Tammy Rudock, General Manager
Candy Pina, Administrative Services Manager

SUBJECT: PRELIMINARY FY 2017/2018 MID-YEAR BUDGET SUMMARY REVIEW

RECOMMENDATION

Receive PRELIMINARY mid-year budget summary review of FY 2017/2018.

FISCAL IMPACT

Projections were made to revenues and expenditures for a PRELIMINARY mid-year summary budget review, because the monthly financial audit and reconciliation for actuals through December 31, 2017, has not yet been completed. A more thorough report and presentation will be made at the February 22, 2018, regular Board meeting.

Based on PRELIMINARY 12/31/17 projected revenues and expenditures, the MPWD Operating Surplus is approximately $125,000 higher ($670,673 instead of $544,809), and the Depreciation expense is expected to be $150,000 lower ($900,000 instead of $1,050,000).

The Capital Budget will be amended for approved projects:

- Update Francis and Academy WMR total project costs to $729,000 (from $702,000);
- Add $190,000 for the WMR added to the last block of Davey Glenn to the ECR; and
- Add $48,000 for the Engineering Design Services for F Street, Ralston, and OCR extensions to the OCR WMR.

Miscellaneous Capital Outlay will remain budgeted at $50,000.

Thus, $346,000 will be transferred from Capital Reserves (rather than $207,122).

DISCUSSION

Operating Revenues were up for the first half of FY 2017/2018, resulting mostly from customer summer water consumption and receipt of development impact revenues. A footnote was added to the Revenues Miscellaneous section regarding "Contributed

Capital" (new residential services and upgrades), which staff will identify as a more budget appropriate term during next fiscal year's budget preparation.

The debt service payment due on December 1, 2017, was timely made and is reflected.

Staff provided this PRELIMINARY mid-year summary because it was necessary for the next discussion on cash reserves.

The FY 2016/2017 Budget Summary with actuals through November 30, 2017, is also attached for reference.

Attachments: PRELIMINARY MPWD FY 2017/2018 Mid-Year Budget Summary Review
MPWD FY 2016/2017 Budget Summary (actuals through 11/30/17)

BOARD ACTION: APPROVED:_____ DENIED:_____ POSTPONED:_____ STAFF DIRECTION:_____

UNANIMOUS_____ WARDEN_____ VELLA_____ LINVILL_____ ZUCCA_____ STUEBING_____

PRELIMINARY

MID-PENINSULA WATER DISTRICT
MID-YEAR BUDGET FOR YEAR 2017-2018
SUMMARY

1/8/2018

DESCRIPTION	FY 2016-2017 ACTUAL	APPROVED FY 2017-2018 BUDGET	PRELIMINARY PROJECTED 7/1/17-12/31/17	PROPOSED MID-YEAR FY 2017-2018 BUDGET	Increase (Decrease)	% Change
OPERATING REVENUE						
WATER COMMODITY CHARGES	8,578,665	8,500,000	5,564,350	8,500,000	-	0.0%
FIXED SYSTEM CHARGES	2,680,396	2,663,720	1,327,724	2,663,720	-	0.0%
FIRE SERVICE CHARGES	13,600	14,000	7,593	14,000	-	0.0%
SERVICE LINE & INSTALLATION CHARGES	1,452	10,000	-	10,000	-	0.0%
WATER SYSTEM CAPACITY CHARGES	76,875	200,000	252,492	300,000	100,000	50.0%
WATER DEMAND OFFSET CHARGES	9,393	10,000	31,156	40,000	30,000	300.0%
MISCELLANEOUS *	312,498	10,000	101,361	150,000	140,000	1400.0%
INTEREST REVENUE - LAIF	34,295	10,000	26,242	40,000	30,000	300.0%
INTEREST REVENUE - COP	38,910	-	81,916	150,000	150,000	NA
LEASE OF PHYSICAL PROPERTY	141,949	150,000	76,137	150,000	-	0.0%
LANDSCAPE PERMIT REVENUE	23,800	-	-	15,000	15,000	NA
PROPERTY TAX REVENUE	**301,119**	**260,000**	**102,109**	**260,000**	-	0.0%
TOTAL OPERATING REVENUE	**12,212,952**	**11,827,720**	**7,571,079**	**12,292,720**	**465,000**	3.9%
OPERATING EXPENDITURES (OP EXP)						
SALARIES & WAGES	1,632,812	1,718,225	702,939	1,718,225	-	0.0%
PAYROLL TAXES & BENEFITS	1,159,588	1,204,893	521,907	1,204,893	-	0.0%
PURCHASED WATER	5,192,951	5,234,856	3,107,370	5,256,000	21,144	0.4%
OUTREACH & EDUCATION	79,158	116,900	18,250	116,900	-	0.0%
M&R - OPS SYSTEM	306,946	389,598	223,228	515,698	126,100	32.4%
M&R - FACILITIES & EQUIPMENT	104,989	166,860	58,864	166,860	-	0.0%
SYSTEM SURVEYS	9,360	30,000	-	30,000	-	0.0%
ADMINISTRATION & EQUIPMENT	298,270	314,755	133,033	361,563	46,808	14.9%
MEMBERSHIP & GOV FEES	172,498	208,613	102,957	208,613	-	0.0%
BAD DEBT & CLAIMS	20,936	37,000	(1,478)	37,000	-	0.0%
UTILITIES	269,238	301,687	114,787	301,687	-	0.0%
PROFESSIONAL SERVICES	391,817	458,660	197,276	458,660	-	0.0%
TRAINING/TRAVEL & RECRUITMENT	42,017	45,000	16,643	45,000	-	0.0%
RESTRICTED EARNINGS	-	10,000	108,157	216,000	206,000	2060.0%
DEPRECIATION	903,949	1,050,000	421,511	900,000	(150,000)	-14.3%
RESERVES	-	-	-	-	-	NA
DEBT SERVICE	695,952	1,045,865	984,950	984,950	(60,915)	-5.8%
TOTAL OPERATING EXPENSE	**11,280,482**	**12,332,912**	**6,710,393**	**12,522,049**	**189,137**	1.5%
TOTAL OP REV LESS OP EXP	**932,470**	**(505,192)**	**860,686**	**(229,329)**	**275,864**	-54.6%
NET TRANSFERS TO CAPITAL	**(932,470)**	**505,192**	**(860,686)**	**229,329**	**(275,864)**	-54.6%
DEBT SERVICE COVERAGE		**1.52**		**1.68**		

TOTAL OPERATING REVENUE	12,212,952	11,827,720	7,571,079	12,292,720	465,000
TOTAL OPERATING EXPENSE LESS DEPREC	10,376,533	11,282,912	6,288,883	11,622,049	339,137
TOTAL OP REV LESS OP EXP LESS DEPREC	**1,836,419**	**544,808**	**1,282,196**	**670,672**	**125,864**

*** Includes Contributed Capital**

MID-PENINSULA WATER DISTRICT
BUDGET FOR YEAR 2016-2017
SUMMARY

DESCRIPTION	APPROVED FY 2017-2018 BUDGET $	ACTUALS 7/1/2017 11/30/17	REMAINING BALANCE/ (OVER BUDGET)	Target YTD % 41.9% Y-T-D % OF BUDGET
OPERATING REVENUE				
WATER COMMODITY CHARGES	8,500,000	4,948,972	3,551,028	58.2%
FIXED SYSTEM CHARGES	2,663,720	1,106,231	1,557,489	41.5%
FIRE SERVICE CHARGES	14,000	6,316	7,684	45.1%
SERVICE LINE & INSTALLATION CHARGES	10,000	-	10,000	NA
WATER SYSTEM CAPACITY CHARGES	200,000	252,492	(52,492)	126.2%
WATER DEMAND OFFSET CHARGES	10,000	31,156	(21,156)	311.6%
MISCELLANEOUS CHARGES	10,000	98,023	(88,023)	980.2%
INTEREST REVENUE - LAIF	10,000	26,242	(16,242)	262.4%
LEASE OF PHYSICAL PROPERTY	150,000	65,425	84,575	43.6%
PROPERTY TAX REVENUE	260,000	21,277	238,723	8.2%
TOTAL OPERATING REVENUE	**11,827,720**	**6,556,135**	**5,271,585**	55.4%
OPERATING EXPENDITURES (OP EXP)				
SALARIES & WAGES	1,718,225	585,537	1,132,688	34.1%
PAYROLL TAXES & BENEFITS	1,204,893	440,386	764,507	36.5%
PURCHASED WATER	5,234,856	2,754,105	2,480,751	52.6%
OUTREACH & EDUCATION	116,900	13,599	103,301	11.6%
M&R - OPS SYSTEM	389,598	120,706	268,892	31.0%
M&R - FACILITIES & EQUIPMENT	166,860	49,512	117,348	29.7%
MAJOR MAINTENANCE	30,000	-	30,000	NA
OFFICE SUPPLIES & EQUIPMENT	314,755	113,051	201,704	35.9%
MEMBERSHIP & GOV FEES	208,613	84,847	123,766	40.7%
BAD DEBT & CLAIMS	37,000	(1,478)	38,478	-4.0%
UTILITIES	301,687	104,252	197,435	34.6%
PROFESSIONAL SERVICES	458,660	136,359	322,301	29.7%
TRAINING/TRAVEL & RECRUITMENT	45,000	13,361	31,639	29.7%
RESTRICTED EARNINGS	10,000	26,242	(16,242)	262.4%
RESERVES	-	-	-	NA
DEBT SERVICE 2016 COPs	1,045,865	296,850	749,015	28.4%
TOTAL OP EXP LESS DEPRECIATION (DEPREC)	**11,282,912**	**4,737,329**	**6,545,583**	42.0%
TOTAL OP REVENUE LESS OP EXP & DEPREC	**544,808**	**1,818,806**	**(1,273,998)**	333.8%
DEPRECIATION	1,050,000	350,511	699,489	33.4%
TOTAL OP REVENUE LESS OP EXP	**(505,192)**	**1,468,295**	**(1,973,487)**	-290.6%
NET TRANSFERS TO CAPITAL	**505,192**	**(1,468,295)**	**1,973,487**	-290.6%
NET RESULTS OF OPERATIONS	-	-	-	

AGENDA ITEM NO. 4.A.3.

DATE: January 11, 2018

TO: Board of Directors

FROM: Tammy Rudock, General Manager

SUBJECT: DISCUSS THIRD DRAFT MPWD CASH RESERVE POLICY, INCLUDING PARS PRSP (PENSION RATE STABILIZATION PROGRAM)

RECOMMENDATION
Discuss the third DRAFT MPWD Cash Reserve Policy, including PARS PRSP.

FISCAL IMPACT
None, discussion only.

BACKGROUND
MPWD RESERVE POLICY
The MPWD's existing Reserve Policy was approved by the Board on December 13, 2007, per Resolution 2007-13.

Draft MPWD Cash Reserve policies were presented to and reviewed by the Board as follows:

- November 15, 2017 – Second Draft; and
- October 26, 2017 – First Draft.

GFOA BEST PRACTCES
The GFOA (Government Finance Officers Association) defines working capital as a calculation of current assets less current liabilities that should be maintained "to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenses) and to ensure stable services and rates." It recommends that local governments "adopt a target amount of working capital to maintain in their enterprise funds that best fit local conditions, and formally describe the targets in a financial policy and/or financial plan."

Working capital is also a crucial consideration in long-term financial planning, according to the GFOA. "Credit rating agencies consider the availability of working capital in their evaluations of continued creditworthiness."

The GFOA recommends that "under no circumstances should the target for working capital be less than forty-five (45) days' worth of annual operating expenses."

Finally, other reserve funds and financial resources were cited by the GFOA as important when considering a working capital reserve, including cash cycles, service demand, control over rates and revenues, asset age and condition, volatility of expenses, separate reserve targets for capital needs, and debt position.

Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the MPWD is committed to maintaining its long-term fiscal strength. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, and capital improvements, are consistent with best practices in the utility industry and are important to the MPWD as they help to:

- Maintain the short-term and long-term financial health of the MPWD;
- Maintain stable rates for customers and help ensure manageable rate increases;
- Fund unanticipated cost contingencies;
- Ensure funds exist for system improvements;
- Ensure cash exists for the timely payment of expenses; and
- Act as a significant positive factor in credit ratings for debt issuances.

PARS PRSP

As reported at the November 15, 2017, Regular Board meeting, and introductory presentations during 2016 and 2015, the PARS PRSP is available to the MPWD and would provide an opportunity for pre-funding pension liabilities in a combined trust with the MPWD's OPEB account and these advantages:

- No cost to set up;
- Allows control over contributions and disbursements—timing, amount and risk tolerance;
- More balanced investment strategy than CalPERS, and offsets pension rate increases and underperformance by CalPERS;
- Allows for assets—OPEB and PRSP—to aggregate resulting in lower fees on tiered schedule;
- PRSP funds may be used for pension obligations at any time, including pay down of UAL;
- Diversified investment potential for greater return than LAIF; and
- Addresses the MPWD's unfunded pension liability for GASB 68 reporting.

DISCUSSION

During the November 15, 2017, Board discussions on the second DRAFT of the proposed Cash Reserve Policy, the following suggestions were made:

1. Better define the meaning of "cash reserves";

2. Maintain cash reserves in the total amount of $2.5 - $3.0 million if pre-funding of MPWD accrued liabilities (e.g., CalPERS UAL and OPEB) or additional pay-go capital would be considered; and
3. Provide a financial plan for existing cash reserves.

The proposed third DRAFT of the MPWD Cash Reserve Policy is attached. It is much more simplified. (For comparison, a copy of the November 18, 2017 second DRAFT is attached.) The policy is subject to biennial review and update by the MPWD, either as the result of material changes in risk exposures, best practices, regulations, or standards. All updates require approval by the Board.

In response to previous suggestions and feedback, the attached third DRAFT of the MPWD Cash Reserve Policy includes a proposed definition section, and total maximum reserve target of $3.0 million ($1.5 million each for Working Capital and Capital Reserves).

PROPOSED FINANCIAL PLAN FOR CASH RESERVES

The MPWD's existing cash reserve balance is $6.5 million. The following three (3) options recommended by staff include justifications and benefits, and would account for $3.6 million, leaving a balance of $2.9 million. **Therefore, the MPWD would be within $100,000 of its proposed new maximum reserve target by the end of this fiscal year.** Staff would recommend that the first $20,000 of Operating Surplus from each of the next five (5) fiscal years be allocated to reserves in order to reach the maximum $3.0 million target.

A new reserve target of $3.0 million should be satisfactory to S&P (Standard & Poor's), the agency that rated the MPWD "AA" during the 2016 COP debt issuance for the CIP. Attention to the attached S&P report dated November 15, 2016, was carefully paid, while considering cash reserve use options and a recommended maximum reserve target. Adoption of a new Cash Reserve Policy, as well as a Debt Management Policy, combined with the MPWD's continued prudent financial management (including the retention of reserves in trust for unfunded liabilities—OPEB and pension, water rate reviews and planned increases, and added system infrastructure and facility rehabilitation and improvements identified in the MPWD CIP), and the COP CIP progress, are significant activities and important actions that impact the overall financial health of the MPWD—**ALL OF INTEREST TO S&P AND LENDERS!**

Here are the three (3) options for use of the cash reserves:

- OPTION #1: $500,000 should be reserved for transfer to the FY 2017/2018 Capital Budget, for the MPWD's portion of the 2017 Water and Sewer Improvements Project with the City of Belmont (already approved by the Board).

CASH RESERVES AFTER FUNDING OPTION #1 - $6.0 million

- OPTION #2: $1.5 million should be used to fully fund the OPEB liability, which will bring PARS OPEB trust account to $2.4 million as estimated by the 2015 MPWD GASB 45 actuarial report. There are many benefits:

  2.1. Full funding of the OPEB liability!
  2.2. Beginning in FY 2018/2019, retiree healthcare benefits would be paid from the OPEB trust account, resulting in annual operational cost savings of approximately $65,000. This will become significant considering the number of upcoming employee retirements.
  2.3. Further annual operational cost savings, beginning in FY 2018/2019, of the OPEB ARC (Annual Required Contribution)—approximately $180,000.
  2.4. Good timing given the transition in MPWD PARS OPEB investment portfolios.

CASH RESERVES AFTER FUNDING OPTIONS #1 & #2 - $4.5 million

- OPTION #3: $1.6 million to pre-fund the pension liability through the establishment of a PARS PRSP (Pension Rate Stabilization Fund). Benefits include:

  3.1. Programmed payment of an unfunded liability—the CalPERS UAL (Unfunded Accrued Liability)!
  3.2. Funds are completely managed by the MPWD rather than CalPERS.
  3.3 MPWD already has an established trust account with PARS and there will be no additional administrative fees.
  3.4. Beginning in FY 2018/2019, the MPWD will move to a 15-year amortization schedule (rather than 30 years) for UAL pension payments to CalPERS, saving an estimated **$728,399** in overall interest costs (from CalPERS Actuarial Valuation – June 30, 2016), and the MPWD will make an annual UAL lump-sum payment (rather than monthly), which saves 3.5%.
  3.5 Beginning in FY 2019/2020, the MPWD will make its annual UAL payments from the PRSP, allowing interest to accrue. This will result in annual operational cost savings of approximately $135,000.
  3.6. Flexibility to pay CalPERS ERC (Employer Required Contribution), which is a separate payroll-based pension contribution, from the PRSP during any fiscal year burdened with financial constraints.

CASH RESERVES AFTER FUNDING OPTIONS #1, #2 & #3 - $2.9 million

With the MPWD's focus on capital and infrastructure replacement, rehabilitation, and upgrade, two (2) other options from the MPWD CIP were considered, as was funding for the CIP "gap":

- $1.0 million to complete the AMI installation project, which should be the next funding priority for the MPWD (in FY 2018/2019).
- $1.5 million for rehabilitation of MPWD Dairy Lane premises and property, which could be funded with proceeds from sale of MPWD property located at 1513/1515 Folger.
- $5.0 million for the COP CIP project cost "gap" (needed by FY 2021/2022), as a result of rising construction costs and engineering and operational project upgrades and add-ons. Currently, the COP CIP project cost "gap" is approximately $3.0 million, including $1.0 million for the construction of the OCR WMR Project add-ons (F Street, Ralston, and OCR extension). The MPWD could create a plan to reserve its Operating Surpluses (at least $500,000 per year projected) beginning in FY 2019/2020, and development revenues expected within the next 2-3 years from new projects planned in Belmont (estimated at $3.0-$5.0 million), to cover the gap.

The figures highlighted in green hereinabove are important because they are projected annual operational cost savings for the MPWD.

AND, IT'S A GOOD THING, BECAUSE THE MPWD NEEDS THOSE DOLLARS!

The significant development in Belmont and numerous anticipated MPWD employee retirements within the next 2-3 years requires staffing level changes and the necessary funds to cover the costs. Plans for proposed reorganizations in preparation for succession planning are being finalized and will be presented to the Board for consideration at its February 22, 2018, regular meeting. Staff will provide preliminary highlights at the workshop. Suffice it to say, that any projected annual operational cost savings would be needed for "staffing up".

Attachment: Third DRAFT MPWD Cash Reserve Policy
Second DRAFT MPWD Cash Reserve Policy
S&P Rating Letter dated November 15, 2016

BOARD ACTION: APPROVED:_____ DENIED:_____ POSTPONED:_____ STAFF DIRECTION:_____

UNANIMOUS_____ WARDEN_____ VELLA_____ LINVILL_____ ZUCCA_____ STUEBING_____

CASH RESERVE POLICY

1. POLICY STATEMENT

Cash reserves are essential to ensuring fiscal responsibility, a key organizational goal of the Mid-Peninsula Water District (District). Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the District is committed to maintaining the long-term fiscal strength of the District.

2. DEFINITION

Cash reserves are savings necessary to balance District budgets during periods of fiscal constraint, allow for emergency preparedness, provide for a well-maintained infrastructure, and demonstrate a commitment to future system capital investments.

3. PURPOSE

Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, and capital improvements, are consistent with best practices in the utility industry. This Cash Reserve Policy is designed to provide operating guidance for the management of District finances.

4. CASH RESERVES

The District will maintain cash reserves in two (2) categories:

A. Working Capital Reserve with a maximum target level of $1.5 million, and ranked #1 for funding; and
B. Capital Reserve with a maximum target level of $1.5 million, and ranked #2 for funding.

MID-PENINSULA WATER DISTRICT CASH RESERVE POLICY SUMMARY

RESERVE	*FUNDING RANK*	*MAXIMUM TARGET LEVEL*
Working Capital Reserve	1	$1,500,000
Capital Emergency Reserve	2	$1,500,000

Replenishment of reserve levels and plans for meeting maximum target levels will be recommended by the General Manager as part of the District's annual budgeting process.

5. WORKING CAPITAL RESERVE

The purpose of the Working Capital Reserve is to ensure that the District will at all times have sufficient funding available to meet annual operating costs, including temporary cash flow deficiencies that might occur as a result of timing differences between the receipt of operation revenue and expenditure requirements and unexpected costs that might occur as a result of doing business. Adequate operating reserves provide financial flexibility in the event of unanticipated expenditures or revenue fluctuations.

A. Target Level: $1.5 million.
B. Use of Reserve: To pay outstanding operating expenditures prior to the receipt of anticipated operating revenues, or in circumstances resulting from short-term loss or shortage of revenues. The General Manager will notify the Board President prior to withdrawing and using the necessary funds, and seek ratification of the expenditure at the next regular Board Meeting.

6. CAPITAL RESERVE

The purpose of the Capital Reserve is to ensure that the District is able to fund the repair, maintenance, or replacement of the water system's infrastructure assets, during normal operations and emergencies. The reserve level combined with the District's managed risk pooled insurance coverage should adequately protect the District and its customers in the event of a catastrophic loss.

A. Target Level: $1.5 million.
B. Use of Reserve: To cover unexpected losses experienced by the District as a result of a disaster or emergency incidents that might result in the normal course of doing business. Any reimbursement received by the District from insurance as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss. The General Manager will notify the Board President prior to withdrawing and using the necessary funds, and seek ratification of the expenditure at the next regular Board Meeting.

5.0 OVERSIGHT AND REPORTING

Reserve levels will be monitored by staff during the fiscal year and reported to the Board of Directors in monthly financial reports.

To the extent that reserves exceed target levels, the Board of Directors has the flexibility to direct staff to utilize the available funds to:

A. Pay for capital projects (reducing the need for future debt);
B. Pay down liabilities (e.g., unfunded accrued pension obligations, or OPEB—Other Post-Employment Benefits);
C. Pay down existing debt; and/or
D. Fund other strategic objectives.

This Cash Reserve Policy will be reviewed on a biennial basis to ensure conformance with the District's strategic goals and objectives, and updated as necessary in compliance with material changes in risk exposures, regulations, or standards.

CASH RESERVE POLICY

1. POLICY STATEMENT

Cash reserves are essential to ensuring fiscal responsibility, a key organizational goal of the Mid-Peninsula Water District (District). They can also provide the savings necessary to balance budgets during periods of fiscal constraint, allow for emergency preparedness, assist in maintaining stable water service rates, provide for a well-maintained infrastructure, and demonstrate a commitment to future system capital investments.

This Cash Reserve Policy is designed to establish guidelines to ensure the fiscal stability of the District and provide operating guidance for the management of District finances.

2. PURPOSE

Properly designed reserve policies send a positive signal to ratepayers, investors, and regulatory and credit rating agencies that the District is committed to maintaining the long-term fiscal strength of the District. Strong and transparent financial policies, including maintaining prudent reserves for emergencies, rate stability, working capital, and capital improvements, are consistent with best practices in the utility industry and are important to the District as they help to:

- Maintain the short-term and long-term financial health of the District;
- Maintain stable rates for customers and help ensure manageable rate increases;
- Fund unanticipated cost contingencies;
- Ensure funds exist for system improvements;
- Ensure cash exists for the timely payment of expenses; and
- Act as a significant positive factor in credit ratings for debt issuances.

The District will maintain cash reserves in two (2) categories:

1. ~~Operating~~Working Capital Reserve ~~(including Operating Contingency Reserve and Rate Stabilization Reserve)~~; and
2. Capital Reserve (including ~~Capital Improvements/Outlay Pay-Go Reserve,~~ Emergency Reserve, and Long-Term CIP ~~Debt Service~~ Reserve).

MID-PENINSULA WATER DISTRICT CASH RESERVE POLICY SUMMARY

RESERVE	***FUNDING RANK***	***MAXIMUM TARGET LEVEL***
~~Operating Contingency~~ Working Capital Reserve	1	$1,500,000
Capital Emergency Reserve	2	$1,000,000
Capital ~~Improvements/Outlay Pay-Go Reserve~~Long-Term CIP Reserve	3	$~~1~~3,000,000
~~Operating Rate Stabilization Reserve~~	~~4~~	~~$ 500,000~~
~~Capital Debt Service Reserve~~	~~5~~	~~$1,000,000~~

3. ~~OPERATING~~WORKING CAPITAL RESERVE

The purpose of the ~~Operating~~Working Capital Reserve is to ensure that the District will at all times have sufficient funding available to meet annual operating costs. Adequate operating reserves, along with sound financial policies, result from prudent fiscal stewardship and provide financial flexibility in the event of unanticipated expenditures or revenue fluctuations.

3.1 ~~OPERATING CONTINGENCY~~ WORKING CAPITAL RESERVE

The ~~Operating Contingency~~ Working Capital Reserve is established to cover temporary cash flow deficiencies that occur as a result of timing differences between the receipt of operating revenue and expenditure requirements and unexpected costs that might occur as a result of doing business.

A. Target Level: $1.5 million.
B. Use of Reserve: May be utilized as needed to pay outstanding operating expenditures prior to the receipt of anticipated operating revenues, or in circumstances resulting from short-term loss or shortage of revenues. The General Manager will notify the Board President prior to withdrawing and using the necessary funds, and seek ratification of the expenditure at the next regular Board Meeting.

~~3.2 RATE STABILIZATION RESERVE~~

~~The Rate Stabilization Reserve is established to mitigate rate shock due to temporary and transitional regulatory changes, loss of a major resource, sharp demand reduction or market volatility.~~

A. ~~Target Level: $500,000.~~
B. ~~Use of Reserve: May be used to cover unexpected decreases in operating revenues and increases in operating costs to reduce year-over-year volatility in needed rate increases, as approved the Board of Directors. The reserve fund balance will be evaluated for replenishment during fiscal year budget planning, and dependent upon available operating revenues.~~

4. CAPITAL RESERVE

The purpose of the Capital Reserve is to ensure that the District is able to fund the repair, maintenance, or replacement of the water system's infrastructure assets, during normal operations and emergencies. Adequate capital reserves, along with sound financial policies, provide for the District's commitment to long-term capital planning and implementation, and allow for financial flexibility to fund projects, especially during emergencies.

~~4.1 CAPITAL IMPROVEMENTS/OUTLAY PAY-GO RESERVE~~

~~The Capital Improvements/Outlay Pay-Go Reserve is established for revenue-funded (pay-go) capital infrastructure projects and outlay items (e.g., vehicles, computers, servers, and related~~

~~automation, AMI (Automated Metering Infrastructure change-out program) as planned in the District's annual capital budget.~~

A. ~~Target Level: $1.5 million~~
B. ~~Use of Reserve: This fund will be drawn down each year as capital expenditures are made. During fiscal year budget planning, the reserve fund balance will be evaluated for replenishment based on the upcoming year's revenue-funded capital requirements.~~

4.~~2~~1 CAPITAL EMERGENCY RESERVE

The Capital Emergency Reserve is established to provide protection recovery to the District and its customers for losses arising from a disaster or any other unexpected loss as a result of conducting District business. The reserve level combined with the District's managed risk pooled insurance coverage should adequately protect the District and its customers in the event of a catastrophic loss.

A. Target Level: $1.0 million.
B. Use of Reserve: May be used to cover unexpected losses experienced by the District as a result of a disaster or emergency incidents that might result in the normal course of doing business. Any reimbursement received by the District from insurance as a result of a submitted claim shall be deposited back into the reserve as replenishment for the loss. The General Manager will notify the Board President prior to withdrawing and using the necessary funds, and seek ratification of the expenditure at the next regular Board Meeting.

4.~~3~~2 ~~DEBT SERVIC~~CAPITAL LONG-TERM CIP~~E~~ RESERVE

The purpose of the ~~Debt Service~~Capital Long-Term CIP Reserve is to ensure the District's ability to provide for unexpected increases in CIP project costs or a portion of its unfunded long-term CIP.~~make its annual debt service payment for the 2016 COP (Certificates of Participation) capital debt financing project in an extreme event that might impact or impair the District's ability to provide services, thus impacting revenues at a time critical infrastructure repairs or system replacement are needed to restore operations, or in extreme market disruptions.~~ ~~**The District is not contractually obligated to maintain this reserve.**~~

A. Target Level: $~~1~~3.0 million
B. Use of Reserve: May be used~~tilized~~ to cover unexpected increases in capital project costs within the District's 5-Year CIP after 2016 COP project funds were exhausted, or to provide for a portion of the unfunded long-term CIP ($32 million in 2015 dollars). Use of this reserve would require advance approval of the Board of Directors.~~in the event the District is otherwise unable to pay its debt service obligations. It is not anticipated that the District would ever utilize these reserves absent a significant disaster or extreme market disruption, and only with the approval of the Board of Directors.~~ ~~**The Board of**~~

~~Directors has the authority to redirect the use of these reserves as the needs of the District change.~~

5.0 OVERSIGHT AND REPORTING

Reserve levels will be monitored by staff during the fiscal year and reported to the Board of Directors in monthly financial reports.

To the extent that reserves exceed target levels, the Board of Directors has the flexibility to direct staff to utilize the available funds to:

A. Pay for capital projects (reducing the need for future debt);
B. Pay down unfunded liabilities such as pension obligations and other post-employment benefits (OPEB)—retiree healthcare obligations;
C. Pay down existing debt;
D. Establish a prepayment reserve to pay off outstanding long-term debt;
E. Reduce water rates; and/or
F. Fund other strategic objectives.

This Cash Reserve Policy will be reviewed on a biennial basis to ensure conformance with the District's strategic goals and objectives, and updated as necessary in compliance with material changes in risk exposures, regulations, or standards.

S&P Global
Ratings

One California Street, 31st Floor
San Francisco, CA 94111-5432
tel 415 371-5000
reference no.: 1462551

November 15, 2016

Mid-Peninsula Water District
3 Dairy Lane
Belmont, CA 94002
Attention: Ms. Tammy Rudock, General Manager

Re: ***US$19,405,000 Mid-Peninsula Water District, California, Certificates Of Participation (Financing Project), Series 2016, dated: Date of delivery, due: December 01, 2046***

Dear Ms. Rudock:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

This letter constitutes S&P Global Ratings' permission for you to disseminate the above-assigned ratings to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

To maintain the rating, S&P Global Ratings must receive all relevant financial and other information, including notice of material changes to financial and other information provided to us and in relevant documents, as soon as such information is available. Relevant financial and other information includes, but is not limited to, information about direct bank loans and debt and debt-like instruments issued to, or entered into with, financial institutions, insurance companies and/or other entities, whether or not disclosure of such information would be required under S.E.C. Rule 15c2-12. You understand that S&P Global Ratings relies on you and your agents and advisors for the accuracy, timeliness and completeness of the information submitted in connection with the rating and the continued flow of material information as part of the surveillance process. Please send all information via electronic delivery to: pubfin_statelocalgovt@spglobal.com. If SEC rule 17g-5 is applicable, you may post such information on the appropriate website. For any information not available in electronic format or posted on the applicable website,

Please send hard copies to:
S&P Global Ratings
Public Finance Department
55 Water Street

New York, NY 10041-0003

The rating is subject to the Terms and Conditions, if any, attached to the Engagement Letter applicable to the rating. In the absence of such Engagement Letter and Terms and Conditions, the rating is subject to the attached Terms and Conditions. The applicable Terms and Conditions are incorporated herein by reference.

S&P Global Ratings is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing S&P Global Ratings.

Sincerely yours,

S&P Global Ratings

a division of Standard & Poor's Financial Services LLC

pp
enclosures
cc: Mr. Brian D. Quint, Esq.
Mr. Bud Levine
Ms Rene Ramirez

S&P Global
Ratings

S&P Global Ratings
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S&P Global
Ratings

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Summary:

Mid-Peninsula Water District, California; Water/Sewer

Primary Credit Analyst:
Tim Tung, San Francisco (415) 371-5041; tim.tung@spglobal.com

Secondary Contact:
Chloe S Weil, San Francisco (1) 415-371-5026; chloe.weil@spglobal.com

Table Of Contents

Summary:

Mid-Peninsula Water District, California; Water/Sewer

Credit Profile		
US$19.405 mil certs of part (2016 Financing Project) due 12/01/2046		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Mid-Peninsula Water District, Calif.'s certificates of participation, or COPs (2016 Financing Project). The rating reflects, in our opinion, the combination of an extremely strong enterprise risk profile and a strong financial risk profile. The outlook is stable.

The enterprise risk profile reflects our view of the water system's:

- Service area participation in the broad and diverse San Francisco metropolitan area economy;
- Very low industry risk as a monopolistic service provider of an essential public utility;
- Affordable service rates in the context of the service area's very strong income levels that provide management with revenue-raising flexibility; and
- Good operational management practices and policies.

The financial risk profile reflects our view of the water system's:

- Strong historical financial performance that we anticipate will be good once the system begins paying debt service on the series 2016 COPs;
- Historically strong liquidity position that we anticipate will be maintained going forward;
- Moderate leverage level following issuance of the series 2016 COPs, with no additional debt plans in the near-term; and
- Good financial management practices and policies.

An extremely strong enterprise risk profile and a strong financial risk profile map to an indicative rating in our revenue debt criteria matrix of 'aa-', and we have applied a one-notch adjustment based on a favorable comparison of the district's financial risk profile to entities rated 'aa-', and also based on the service area's income metric, which is well above the median for 'aa-' rating level.

The district is issuing the series 2016 COPs to fund the acquisition and construction of capital improvements to the water system.

We view the certificate provisions as credit neutral. The certificates are payable from installment payments secured by the net revenues of the district's water system. The district's obligation to make the installment payments from net revenues is absolute and unconditional, and the district does not have any other debt obligations. Key certificate provisions include a rate covenant and additional bonds test, both of which are set at 1.30x annual debt service. We understand that the district does not intend to provide a debt service reserve fund for the certificates; however, we do not view this as a material credit weakness in light of the district's historically strong liquidity position that we anticipate will be maintained going forward.

Enterprise risk

The district is strategically situated between major employment centers in San Francisco and Silicon Valley, and we believe that residents in the service area participate in the region's broad and diverse economy. The district is located in San Mateo County about 25 miles south of San Francisco, and encompasses about five square miles. The water system's service area generally overlaps the boundaries of the city of Belmont, and management reports that the service area is largely built out although population may grow modestly in the future due to densification and infill development. The California Department of Finance most recently estimated the city's population to be about 27,834 as of Jan. 1, 2016. We view the service area's income levels as very strong based on the city's median household effective buying income (MHHEBI), which was 179% of the national median for 2015. The city's unemployment rates, most recently 2.8% for August 2016, track well below state and national unemployment rates, which were 5.6% and 5.0%, respectively, for the same period. The water system's customer base is stable, primarily residential, and very diverse. The number of customer accounts remained nearly unchanged during the past five fiscal years, and most recently was 8,047 at the end of fiscal year 2016. We consider the customer base to be primarily residential based on residential customers contributing about 90% of water service revenues. We also consider the customer base to be very diverse based on the leading 10 customers contributing about 7.8% of total operating revenues for fiscal year 2016.

We believe the water system has a strong market position based on a natural monopoly in its service area and affordable service rates that provide management with revenue-raising flexibility. The rate structure includes two components: a fixed monthly service charge that is based on the customer's water meter size, and a water consumption charge that has four usage-based rate tiers. In addition, the rate structure includes a feature that enables management to pass through wholesale water rate increases to the customer base, and water shortage emergency rates that may be implemented upon declaration of a water shortage. For a typical single-family residential customer, 800 cubic feet of water usage per month results in a monthly bill of $82. When annualized, this amount is equivalent to about 1.2% of the city's MHHEBI, which is a level that we consider affordable. The district has annually adjusted rates during the past six fiscal years, and we understand that annual rate adjustments have been preapproved through fiscal year 2020. Management reports that there have not been any material payment delinquencies by the customer base.

Based on our operational management assessment, we view the district to be a '2' on a six-point scale with '1' being the strongest. This indicates, in our view, that there is good alignment between operational and organizational goals, even if some challenges exist. The district operates a water distribution system with treated water purchased on a wholesale basis from San Francisco Public Utilities Commission (SFPUC) pursuant to a long-term water supply agreement. Management reports that the distribution system is generally in good condition, which we observe indirectly based on a water loss percentage that has ranged between 5.2% and 7.1% during the past four fiscal years. The district reviews water loss reports on a monthly basis, and conducts leak surveys and corrosion control programs on a biennial basis to ensure the integrity of the distribution system.

The water system is entirely reliant on expensive imported water purchased from SFPUC pursuant to a long-term water supply agreement. SFPUC is a regional water provider for 28 wholesale customers in the San Francisco Bay Area. Under a 25-year contract executed in 2009, the district has a guaranteed water supply of about 4,358 acre-feet annually. In fiscal year 2016, the water system purchased about 2,472 acre-feet of water, which was 26% lower than water demand of about 3,336 acre-feet in fiscal year 2013. Water demand declined sharply during the past two fiscal years due to voluntary and mandatory water conservation measures implemented during this period of drought, and management anticipates that demand will remain near current levels with only modest increases going forward.

SFPUC has increased its wholesale rates substantially during recent years, including 19.6% in fiscal year 2015 and 28.0% in fiscal year 2016, as it undertakes a large and predominantly debt-financed capital improvement program. The wholesale water rate was $2.93 per hundred cubic feet (HCF), or $1,276 per acre-foot, in fiscal year 2015, and based on information provided by SFPUC in February 2016, the district anticipates that the wholesale water rate will rise to $5.33 per HCF, or $2,322 per acre-foot, by fiscal year 2020. We believe that the district is exposed to changes in wholesale rates that are likely to continue rising, although we note the district's rate structure provides a mechanism for passing through these wholesale rate increases to the customer base. For more information on the SFPUC's water system, see our report published Sept. 30, 2016, on RatingsDirect.

We understand that the district has a water shortage contingency plan that is included with its urban water management plan, but generally depends on SFPUC and The Bay Area Water Supply & Conservation Agency (BAWSCA) for regional operational and contingency planning. Given the size of the district and its staff, succession planning and cross training is limited. The district reviews and adjusts its service rates regularly, and management has routinely engaged external consultants to perform in-depth rate analyses.

Consistent with "Methodology: Industry Risk," published Nov. 19, 2013, we consider industry risk for the water system to be very low, the most favorable assessment possible on a '1' to '6' scale, with '1' being the best.

Financial risk

The district's financial performance has historically been strong, and we anticipate that it will be good once it begins paying debt service on the series 2016 COPs. Based on the district's audited financial statements for fiscal years 2013 through 2015, we calculate that net revenues available for debt service ranged from about $1.5 million for fiscal year 2015 to about $2.2 million for fiscal year 2014. Net revenue performance during this period was driven primarily by an 8% increase in water service charges in fiscal year 2014 due to an implemented rate increase, followed by a 4.9% decrease in water service charges in fiscal year 2015 due to a 14.6% reduction in water demand from voluntary water conservation that more than offset an implemented 9% rate increase. Based on the district's substantially final, but not yet approved, financial statements for fiscal year 2016, we calculate net revenues available for debt service of about $1.8 million. Net revenues increased in fiscal year 2016 based on an 18% rate increase more than offsetting a 10.9% decrease in water demand from mandatory water conservation and a 7.9% increase in water purchase costs.

Although the district has not recently had any direct debt, we have calculated an all-in coverage metric that takes into consideration the district's proportionate share of SFPUC debt and BAWSCA debt that is indirectly paid by the district through wholesale water rates. For this four-year period, we calculate that all-in coverage declined to 1.7x for fiscal year 2016 from 2.8x for fiscal year 2013, a range that we consider strong, driven primarily by a rise in indirect debt service to about $2.8 million for fiscal year 2016 from about $950,000 for fiscal year 2013. Based on management's forecast, we anticipate that all-in coverage going forward will be about 1.2x to 1.3x, which is a range that we consider good. We believe that the assumptions used for the forecast are reasonable, including operating revenues that reflect approved rate increases, but only modest increases in water demand, and operating expenses that reflect purchased water costs based on SFPUC's wholesale water rate forecast. In the near term there could be favorable variances driven by one-time development fees related to a small number of known, large development projects, but we do not anticipate that development fees will be a significant ongoing revenue stream for the district given that the service area is largely built out.

The district has historically maintained a strong liquidity position, and we anticipate that it will maintain a strong liquidity position going forward. Based on the district's audited financial statements, the district held unrestricted cash and investments of no less than $3.6 million, equivalent to 156 days of operating expenses, at the end of each of the past three fiscal years. More recently, the district reports in its substantially final, but not yet approved, financial statements for fiscal year 2016 an unrestricted liquidity position of about $4.3 million, or 178 days. Although the district's rate study indicates that unrestricted liquidity will be maintained at about $3.2 million through fiscal year 2021, management reports that the forecast does not take into consideration about $1.2 million of development fees that are anticipated to be received within the next two years. We understand that management's recommendation would be to use surplus revenues to fully fund the district's reserves--maintaining a balance of about $5 million going forward--and using amounts in excess of reserve targets for capital projects. Based on a static balance of $5 million, we calculate that liquidity would decline to about 149 days at the end of fiscal year 2021 from 182 days at the end of fiscal year 2017 based on rising operating expenses; however, we anticipate that the district will maintain a strong liquidity position and adjust its reserve policy and targets in 2017.

The district's capital improvement plan is manageable and does not require any additional borrowing during the next five years, but could require additional borrowing thereafter. We understand that the district's 10-year master plan includes about $52 million of capital projects. During the next five years, management plans to fund capital projects from about $20 million of series 2016 COPs proceeds, $2.5 million of surplus revenues, and development fees to the extent received. We understand that the capital projects during this period are primarily for renewal and replacement of existing infrastructure. Given the district's limited surplus revenue generation and the amount of remaining capital projects during the second half of the 10-year period, we anticipate that additional leverage would likely be required to fund the master plan if these capital projects remain within the 10-year time horizon and there is not a significant shift toward pay-as-you-go funding in the future. The district does not have any other existing debt obligations, and we view the district's leverage ratio as moderate based on a debt-to-capitalization ratio of about 51% following the issuance of the series 2016 COPs.

Based on our financial management assessment, we view the district to be a '2' on a six-point scale, with '1' being the strongest. This indicates, in our view, that there is good alignment between financial and organizational goals, although the district's policies and practices are not comprehensive. We understand that the district previously experienced a loss of funds, but it has taken corrective action and implemented recommendations following an internal controls audit in 2012 with a follow-up review in 2013. Revenue and expenses assumptions are reasonable, and interim financial reporting is provided to the district through semiannual presentations to the district board although significant variances may be discussed on an as-needed basis. We understand that the district performs long-term financial planning that is independent of the work conducted by the district's rate consultant; however, this internal forecast is not published or disseminated. The 10-year system master plan is updated every three to five years while capital budgeting focuses on current-year needs. The district's reserve policy was adopted and last reviewed in 2007, and management anticipates updating the reserve policy in 2017. The district does not have a debt management policy, but we understand that management may recommend a policy to the board in 2017 in conjunction with other strategic planning. Financial and operational information is relatively easily obtained, as the district's budget, financial statements, and rate studies are readily available on the district's website.

Outlook

The stable outlook reflects our view of the district's service area that is affluent and largely built out, combined with relatively simple operations as a distribution-only water system. During the two-year outlook horizon, we anticipate that the district will continue to raise service rates in line with the forecast--particularly to pass through wholesale water rate increases from SFPUC to the customer base--and also update its reserve policy with targets that would maintain, in our view, a strong liquidity position on a ratio basis taking into consideration the anticipated rise in operating expenses.

Upside scenario

We could take a positive rating action if the district materially outperforms its financial forecast and we believe the stronger financial metrics are sustainable going forward, such as if the district had ongoing capital needs and funded a more significant portion on a pay-as-you-go basis, thereby providing wider margins for coverage.

Downside scenario

We could take a negative rating action if the district underperforms its forecast, such as if wholesale water rates increase more rapidly than forecast and the district does not maintain discipline in passing through the cost increases to the customer base, or if cash reserves are drawn down to fund capital improvements or other expenses.

MID-PENINSULA WATER DISTRICT

AGENDA ITEM NO. 4.A.4.

DATE: January 11, 2018

TO: Board of Directors

FROM: Tammy Rudock, General Manager

SUBJECT: DISCUSS SECOND DRAFT MPWD DEBT MANAGEMENT POLICY

RECOMMENDATION
Discuss the second DRAFT MPWD Debt Management Policy.

FISCAL IMPACT
None.

BACKGROUND
STATE LAW
Effective January 1, 2017, Senate Bill 1029 (SB 1029) amended Section 8855(i) of the California Government Code to require that local government issuers of public debt adopt a debt management policy, which included specific provisions concerning the use of debt and provided a framework for debt issuance, capital planning, and post issuance debt administration. It created the following major changes to the current law:

- Required the California Debt and Investment Advisory Commission (CDIAC) to track and report on all state and local outstanding debt until fully repaid or redeemed; and
- Required that the report of proposed debt include a certification by the issuer that it has adopted local debt policies, which include specified provisions concerning the use of debt and that the contemplated debt issuance is consistent with those local debt policies; and
- Required a state or local public agency to submit an annual report for any issue of debt.

SECURITIES AND EXCHANGE COMMISSION (SEC) RECOMMENDATIONS
The SEC recommends that issuers of municipal securities adopt policies and procedures to govern compliance, and implement training with respect to their initial disclosure and continuing disclosure undertakings.

GFOA BEST PRACTCES
The GFOA (Government Finance Officers Association) defines debt management policies as “written guidelines, allowances, and restrictions that guide the debt issuance practices of state and local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations.”

A debt management policy further demonstrates a commitment to long-term capital and financial planning, and adherence, according to the GFOA, “signals to rating agencies and the capital markets that a government is well managed and likely to meet its debt obligations in a timely manner.”

The GFOA recommends that a debt management policy should be reviewed periodically (and updated if necessary) and should address at least the following:

1. Debt Limits;
2. Debt Structuring Practices;
3. Debt Issuance Practices; and
4. Debt Management Practices.

Finally, the GFOA supports as a best practice that a debt management policy “should be approved by the issuers governing body to provide credibility, transparency, and ensure that there is a common understanding among elected officials and staff regarding the issuers approach to debt financing.”

DISCUSSION
A DRAFT Debt Management Policy was introduced on October 26, 2017, and discussed with the Board of Directors. A second DRAFT policy was presented on November 15, 2017. It was suggested to delay consideration until this special meeting and workshop discussion on MPWD finances. There were no changes to the policy since the November 15th Board meeting.

The policy was developed in accordance with CDIAC requirements and pursuant to SB 1029, and was designed to meet the following objectives:

- Identify the purpose of the debt issuance and use of debt proceeds;
- Identify the types of debt that may be issued;
- Describe the relationship of debt to the Capital Improvement Program (CIP) and MPWD budget;
- Ensure the issuance of debt is consistent with public policy objectives of the MPWD, as determined by the Board of Directors; and

- Implement and maintain a system of internal controls to ensure that debt proceeds will be directed to the intended use in accordance with all applicable statutory and policy requirements.

The policy is subject to periodic review and update by the MPWD, either as the result of material changes in best practices, market conditions, or if any legal and/or regulatory requirements warrant such an update. All updates require approval by the Board.

Attachment: Second DRAFT MPWD Debt Management Policy

BOARD ACTION: APPROVED:_____ DENIED:_____ POSTPONED:_____ STAFF DIRECTION:_____

UNANIMOUS_____ WARDEN_____ VELLA_____ LINVILL_____ ZUCCA_____ STUEBING_____

DEBT MANAGEMENT POLICY

1. POLICY STATEMENT

The Mid-Peninsula Water District (District) funds its capital projects and meets other financing needs through a combination of current operating revenues, available reserves, outside funding (e.g., grants), and prudently issued debt. This policy documents the goals and guidelines of the District for the issuance and use of debt instruments.

Debt includes financing as a way to raise working capital or capital expenditures by selling bonds, bills, certificates, or notes to individual and/or institutional investors. In return for lending the money, the individuals or institutions become creditors and receive a promise to repay principal and interest on the debt.

To achieve optimal credit ratings and endorse prudent financial management, the District is committed to long-term capital and financial planning, and continual review of its financing structure to optimize the overall cost of debt.

The issuance of debt by the District to finance major capital projects or to refinance existing obligations will only occur after the transaction is evaluated to be fiscally prudent and responsible under the prevailing economic conditions. Prior approval by the Board of Directors (Board) is required for the issuance of new debt or for the refinancing of existing debt.

2. PURPOSE OF POLICY

The purpose of this Debt Management Policy (Debt Policy) is to establish and maintain parameters for issuing debt, and promote objectivity in the decision-making process.

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

- State law, which authorizes the issuance of debt;
- Federal and state law, which govern the eligibility of the debt for tax-exempt status;
- Federal and state law, which govern the issuance of taxable debt;
- Federal and state law, which govern disclosure, sale, and trading of the debt, both before and subsequent to issuance; and
- Generally Accepted Accounting Principles (GAAP).

This Debt Policy is intended to comply with Government Code Section 8855(i), effective January 1, 2017, and shall govern all debt issued by the District. The District hereby recognizes that a fiscally prudent debt policy is required to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenues, and operating expenses.

- Protect the District's credit-worthiness.
- Ensure that all debt is structured to protect current and future taxpayers, ratepayers and constituents of the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives and ~~c~~Capital ~~i~~Improvement ~~p~~Program (CIP) or capital budget, as applicable.

3. PURPOSE AND USE OF DEBT

~~The District will utilize reasonable d~~Debt financing ~~a~~is an acceptable and appropriate approach to fund the District's long-term capital improvements as approved by the Board of Directors and, thus, ensure inter-generational equity of such major improvements among existing and future users of the system. Debt can be issued to fund the capital cost of planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment, and others costs as permitted by law.

3.1 Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District. Long-term debt financings are appropriate:

- When a project to be financed is necessary to provide District services.
- When the project to be financed will benefit constituents over ~~several~~10+ years.
- When total long-term debt financing does not constitute an unreasonable burden to the District and its taxpayers or ratepayers.
- When the debt is used to refinance outstanding debt to reduce the total cost of the debt or to realize other benefits of a debt restructuring, such as increased flexibility in the use of cash and reserves.
- When the weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the District to violate any covenants to maintain the tax-exempt status of such debt, if applicable.

Long-term debt financings will not ~~generally~~ be considered appropriate for current operating expenses and routine maintenance expenses.

The District may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the District Board of Directors;
- The District estimates that sufficient revenues will be available to service the debt through its maturity; and
- The District determines that the issuance of the debt will comply with the applicable state and federal law.

Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refundings will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings that are non-economic may be undertaken to achieve District objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

Refundings that produce a net present value savings of at least 4% of the refunded debt will be considered economically viable. Refundings that produce a net present value savings of less than 4% or negative savings will be considered on a case-by-case basis, and are subject to Board approval.

3.2 Short-term debt. Short term borrowing such as commercial paper and lines of credit will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and unless the Board determines that extraordinary circumstances exist, must not exceed seven years.

3.3 Short-term debt may also be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance, and due within one year, and may be rolled over or extended if necessary. Short-term debt may also be used to finance short-lived capital projects, such as undertaking lease-purchase financing for equipment.

~~3.3 Financings on Behalf of Other Entities. The District may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties to further the public purposes of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed, the financial solvency of any borrower, and that the issuance of such debt is consistent with the policies set forth herein.~~

4. TYPES OF DEBT THAT MAY BE ISSUED

~~The following are types of debt the District could issue:~~

~~A. New Money Debt. New money debt is issued to finance the cost of capital improvement projects or other large or extraordinary costs as approved by the Board;~~

~~B. Refunding Debt. Refunding is debt issued to refinance (refund) previously issued outstanding debt. The District may issue refunding debt to refinance existing principal and/or interest on outstanding debt to achieve debt service savings, restructure scheduled debt service, or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding on the District;~~

~~C. Lease Financings. Lease revenue bonds, certificates of participation (known as "COPs") and lease-purchase transactions are examples of lease financings.~~

~~D. State Revolving Funds (SRF). The SRF loan program is a low or zero interest loan program made available for specific construction projects. SRF loans are generally structured such that the~~

~~agency is required to contribute a percentage of the total project cost and receive loan proceeds from the State of California for the balance; and~~
~~E. Lines of credit. The District has the authority to secure lines of credits when it is deemed prudent and advantageous to do so.~~

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

5. RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

The District is committed to long-term capital planning~~. The District intends to~~ and may issue debt for the purposes stated in this Debt Policy ~~and to implement policy decisions incorporated in~~for implementation of the District's capital budget and ~~capital improvement plan~~CIP.

5.1 The District's Debt Management Policy, Reserve Policy, and Investment Policy will be considered in the decision-making framework utilized in the preparation of the District's CIP and long-term capital and financial planning, and its fiscal year budgeting process.

5.2 The District ~~shall strive to~~ will fund the upkeep and maintenance of its infrastructure and facilities improvements due to normal wear and tear through the expenditure of available operating revenues rather than incurring debt. ~~The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.~~

5.3 The District shall integrate its debt issuances with the goals of its ~~capital improvement program~~CIP by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes~~.~~, or may be less expensive due to construction costs or low interest rates

~~5.4 The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.~~

~~5.5 The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general funds.~~

6. DEBT ISSUANCE

The District is committed to long-term financial planning, maintaining appropriate reserves and employing prudent practices in governance, management and budget administration, and systematic capital planning. The District ~~intends to~~ will issue debt for the purposes stated in this Debt Policy and as approved by the Board of Directors to implement policy decisions incorporated in the District's annual operations and capital budgets. Adoption of this Debt Policy will help ensure that debt is issued and managed in a manner that protects the public interest.

6.1 Credit Rating. ~~The District intends to protect taxpayers, ratepayers and constituents by using conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical total borrowing costs.~~ The District will ~~seek to~~ do everything necessary to maintain optimum credit ratings for debt instruments. District staff, working with the District's Municipal Finance Advisor, shall be responsible for determining ~~whether a rating will be required on a particular financing, and~~ which of the major rating agencies shall be asked to provide such a rating.

6.2 Method of Sale. Debt is typically issued under either a competitive or negotiated sale, ~~but may also be sold in a~~or private placement. ~~The District shall have the flexibility to determine which method of sale is appropriate for each debt issuance.~~ Determination of the appropriate method of sale will rest with the General Manager and the District's Municipal Finance Advisor. There are a number of market factors that will affect the success of a debt offering and each should be carefully considered before selecting a method of sale. These factors include, but are not limited to: 1) market perception of the District's credit quality, 2) interest rate volatility, 3) size of the proposed sale, term and average lfe, 4) complexity of the proposed issue, and 5) competition with other issuers for investor interest.

7. DEBT ADMINISTRATION

7.1 The District will comply with:

A. Applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges; and

B. Applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

1. Any continuing disclosure undertakings entered into by the District in accordance with SEC Rule 15c2-12;
2. Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance;
3. The District's investment policies as they relate to the use and investment of bond proceeds; and
4. California Government Code Section 8855(i) and the annual reporting requirements therein.

7.2 Proceeds of debt will be held either by:

A. A third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the General Manager of the District (or their written designee); or

B. The District, to be held and accounted for in a separate fund or account to ensure debt proceeds are expended only for the purposes for which the debt was issued, the expenditure of which will be carefully documented by the District in records compliance with current accounting standards and subject to the District's annual audit.

7.3 Investment of Debt Proceeds. Proceeds of debt will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The General Manager will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issue, while complying with arbitrage and tax provisions.

7.4 Debt Coverage Target. ~~The District will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in acceptable debt coverage ratios.~~ In determining the affordability of a proposed debt financing, the District will perform an analysis comparing projected annual net revenues, after payment of operating and maintenance expenditures, to estimated annual debt service and the estimate debt coverage ratio. The debt coverage ratio is the amount of net cash flow available, divided by the annual interest and principal payments on debt.

The District's existing debt covenants for its 2016 Certificates of Participation capital debt financing require a legal debt coverage ratio of at least 1.25.

7.5 Debt Service Reserve Balance. District staff will monitor dedicated debt service reserve fund balances, ensuring compliance with related reserve requirements (if applicable), and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a current refunding must outweigh the cost of issuing the refunding debt by a sufficient margin to justify it. (The California Special Districts Association's best practices for debt management recommend at least 3.0% of the principal amount of the bonds being refunded, determined on a net present value basis.)

7.6 Call Options/Redemption Provisions. District staff will evaluate and recommend to the Board the use of a call option, if any, and a call protection period for each issuance. A call option, or optional redemption provision, gives the District the right to prepay or retire debt prior to its stated maturity. The option may permit the District to achieve interest savings in the future through refunding the debt. The cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the call premium, time until the debt may be called at a premium or at par, and interest rate volatility.

7.7 Quarterly Reports. District staff will provide quarterly review and reporting to the Board of the debt's financial performance, including capital expenditures and interest earnings.

7.8 Debt Service Payments. Necessary appropriations for annual debt service requirements will be reflected in the District's annual budget. Staff is responsible for timely annual payments.

7.9 Continuing Disclosure Requirements. The District is responsible for ensuring that the District's annual financial statements, continuing disclosure reports, and material event notifications are posted on the MPWD website and/or the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. The District may also contract with third-party consultant(s) to comply with its continuing disclosure obligations, and with Securities and Exchange Commission Rule 15c2-12(b)(5).

The District shall submit an annual report to CDIAC for any issuance of debt for which it has submitted a report of final sale on or after January 1, 2017. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

Failure to comply with disclosure requirements may restrict the ability of the District to issue debt.

7.10 Investor Relations. Information that the District intends to make available to the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community shall be filed on the MPWD website and the EMMA website.

The District will maintain proactive communications with the investment community, including rating agencies and investors, to ensure future capital market access at the lowest possible interest rates.

7.11 Records Retention. A copy of all relevant documents and records will be maintained by the District through the final maturity of the debt financing plus ten (10) years. Relevant documents and records will include sufficient documentation to support the requirements related to maintaining the tax-exempt status of the debt financing.

AGENDA ITEM NO. 4.A.5.

DATE: January 11, 2018

TO: Board of Directors

FROM: Tammy Rudock, General Manager
Candy Pina, Administrative Services Manager

SUBJECT: PREPARATION FOR FY 2018/2019 OPERATING AND CAPITAL BUDGET, INCLUDING WATER RATES, AND ORGANIZATIONAL SUCCESSION PLANNING

There is no staff report for this agenda item. FY 2018/2019 budget highlights will be discussed, including water rates, AMI capital project completion, and organizational succession planning.