

SPECIAL MEETING – PERSONNEL COMMITTEE – COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

To be held at the JOINT ADMINISTRATION OFFICE  
1955 Workman Mill Road, Whittier, California

WEDNESDAY September 26, 2018 At 11:30 A.M.

District(s)	Chairperson
SBC, 5	FUREY
1, 8	ANDREWS
2, 18	ARMENTA (Committee Chairperson)
3, 4, 9	BUSCAINO
14	PARRIS
15	BARAKAT
16	JOE
17	TORNEK
19	BARGER
20	LEDFORD
21	MORRIS
22	FINLAY
23	DAVIS
27	KUEHL
28	PIERONI
29	HANSON
SCV	WESTE

1. Approve Minutes of Special Meeting Held May 23, 2018
2. Re: Personnel Related Matters – Discussion and Possible Action
  - (a) CLOSED SESSION – Conference with Labor Negotiators (pursuant to Section 54957.6 of the Government Code) – Discussion only
  - (b) OPEN SESSION – Public Comment – 12:00 p.m.
  - (c) CLOSED SESSION – Conference with Labor Negotiators (pursuant to Section 54957.6 of the Government Code) – Discussion and Possible Action

**Summary:** The Chief Engineer and General Manager will update the committee on matters concerning the union-represented, self-represented, and non-represented employee units. The Committee will meet in closed session pursuant to Section 54957.6 of the Government Code, *Conference with Labor Negotiators*. *Agency Designated Representatives: Grace R. Hyde, Chief Engineer and General Manager; Robert C. Ferrante, Assistant Chief Engineer and Assistant General Manager; and Jennifer Allen, Human Resources Manager.*

3. Re: Financial Policies

**Summary:** Having sound investment, debt management, and financial reserve policies is crucial to maintaining the Districts’ financial stability. Changes are being proposed to the existing investment and wastewater financial reserve policies that will improve the Districts’ performance with little to no risk. No changes are being proposed for the debt management policy. A letter summarizing the proposed policies and changes, along with copies of the policies, are attached. The Chief Engineer and General Manager will brief the Committee. This item is consistent with the Districts’ Guiding Principles of commitment to fiscal responsibility and prudent financial stewardship and to protect financial and facility assets through prudent investment and maintenance programs.

Adjourn

**Status Report:** Prior to or during the regular meeting session, the Chief Engineer and General Manager may update the Directors on various matters concerning the Districts that may be of current interest to the Directors.

**Public Comment:** Members of the public may address the Board of Directors on any item shown on the agenda or matter under the Board’s authority. A “Request to Address Board of Directors” form is available in the foyer. In compliance with the Americans with Disabilities Act, if you require special assistance to participate in this meeting, please contact the Secretary to the Boards’ Office (562) 908-4288, extension 1100. Notification 48 hours prior to the meeting will enable staff to make reasonable arrangements to ensure accessibility to this meeting. (28CFR 35.101 et seq. ADA Title II).

**Document Requests:** Links to supporting documents are available online at the time of posting. Agendas and supporting documents or other writings that will be distributed to Board members in connection with matters subject to discussion or consideration at this meeting that are not exempt from disclosure under the Public Records Act are available for inspection following the posting of this agenda at the office of the Secretary to the Boards of Directors located at the Districts’ Joint Administration Building, 1955 Workman Mill Road, Whittier, California, 90601 or at the time of the meeting at the address posted on this agenda.



# COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

1955 Workman Mill Road, Whittier, CA 90601-1400  
Mailing Address: P.O. Box 4998, Whittier, CA 90607-4998  
Telephone: (562) 699-7411, FAX: (562) 699-5422  
www.lacsd.org

GRACE ROBINSON HYDE  
Chief Engineer and General Manager

September 19, 2018

Personnel Committee  
County Sanitation Districts  
of Los Angeles County

Directors:

## Wastewater Financial Policies

The agenda for the September 26, 2018 meeting of the Personnel Committee contains an item regarding financial policies. These policies form the cornerstone of the Districts' financial practices, and are intended to provide guidance when preparing budgets, adopting rates, and developing long-term capital programs. Use of the policies helps create financial stability, allowing us to provide the vital services in a cost-effective manner, weather periods of economic downturn without having to impose significant rate increases, and construct capital projects in a timely fashion despite fluctuations in costs from year to year.

Last year, the Districts each adopted investment, wastewater financial reserve, and debt management policies. Narrow changes to the investment and wastewater financial reserve policies are being brought to the Personnel Committee for its review and consideration. If the proposed changes are endorsed by the Personnel Committee, those policies would be taken to each of the individual Boards of Directors for consideration and adoption. No changes are being proposed to the debt management policy. Copies of the policies are attached. This letter summarizes the recommended changes.

### **INVESTMENT POLICY**

The current policy allows up to 20% of the Districts' funds to be invested in medium-term corporate notes (MTCN) that are rated at least AA, with no more than 10% invested in any single MTCN. Because of the scarcity of AA-rated MTCNs, the Districts have only been able to place 12% of the investment portfolio in this instrument limiting the agency's return. Expanding the criteria to include A-rated MTCNs (allowable under the California Government Code and consistent with many of the member cities' investment policies) would increase the pool of available issuers from 12 to 84 and could increase the rate of return by 20 to 25 basis points. In aggregate, this could generate additional earnings of approximately \$1.3 million annually.

Of concern is whether A-rated MTCNs carry a significantly higher risk of default than AA-rated MTCNs. According to Standard and Poor's (S&P) *2017 Annual Global Corporate Default Study and Rating Transitions*, there have been no defaults of A-rated MTCNs over the last eight years. In fact, over

the last 37 years, the maximum percentage of of A-rated MTCNs default was 0.39%. Furthermore, the S&P report goes on to say that, of the few A-rated MTCNs that did default, 80% of the defaults occurred more than 5 years after they were originally issued. This indicates that there is very little risk in allowing investments in A-rated MTCNs. However, to further minimize the risk to the Districts' portfolio, the following recommendations are proposed:

- The total amount of funds that can be invested in MTCNs still be limited to 20% in aggregate.
- The total amount of funds that can be invested in A-rated MTCNs be limited to 10% in aggregate.
- The total amount of funds that can be invested in any single A-rated corporate entity be limited to 2%.
- The maximum term of an MTCN be limited to five years, not just the remaining life.

#### WASTEWATER FINANCIAL RESERVE POLICY

Service charges and ad valorem (property) taxes constitute the largest sources of wastewater revenues. Because these revenues are collected on the property tax roll, they are only received twice per year. Consequently, cash flow must be managed such that sufficient funds are always on hand to meet expenses until the next installment is received. In the previous policy, this was done by moving money out of the operating fund into a separate cash flow requirement reserve before the end of each fiscal year and then back into the operating fund at the beginning of the next fiscal year. It would be more efficient to eliminate this as a separate fund and incorporate it into the targeted goal for the operating fund.

#### CONCLUSION/FUTURE ACTIONS

A presentation on this matter will be given at the September 26, 2018 Personnel Committee meeting. In the meantime, if you have any questions, please feel free to contact David Bruns, the head of the Districts' Financial Management Department, at (562) 699-7411 extension 2704 or [dbruns@lacs.org](mailto:dbruns@lacs.org). If endorsed by the Personnel Committee, these policies would be presented to the individual Boards of Directors at upcoming meetings.

Very truly yours,



Grace Robinson Hyde

GRH:DBB:ew

**PROPOSED CHANGES SHOWN IN RED**

# **INVESTMENT POLICY A**

**County Sanitation District No. \_\_\_\_\_\***  
**of**  
**Los Angeles County**

**October 2018**

\* Districts Nos. 1, 2, 3, 4, 5, 8, 9, 14, 15, 16, 18, 19, 20, 21, 22, 23, 28, 29, and 34, Santa Clarita Valley Sanitation District, and South Bay Cities Sanitation District have all adopted investment policies with the same provisions.

## **TABLE OF CONTENTS**

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1. Policy Statement.....	1
2. Treasurer; Administration .....	1
3. Trustee’s Duties and Objectives.....	1
4. Investment Instruments Allowed .....	2
5. Investment Limits and Allocation .....	3
6. Maximum Maturities.....	4
7. Purchasing Entities.....	4
8. Investment Safekeeping .....	4
9. Reporting Requirements.....	4
10. Internal Control .....	4
11. Ethics and Conflicts of Interest .....	5
12. Investment Policy Adoption.....	5

# **Investment Policy**

## **County Sanitation District No. \_\_\_ of Los Angeles County**

### **1. Policy Statement**

This Investment Policy of County Sanitation District No. \_\_\_ of Los Angeles County (District) provides for the prudent investment of the District's funds and the effective management of investment activities. This Policy covers all investment activities directly controlled by the District.

### **2. Treasurer; Administration**

- 2.1 The District's Chief Engineer and General Manager is hereby appointed Treasurer of the District, and is trustee of the District's funds.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and to manage, deposit, and invest District funds in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall report to the Board of Directors in accordance with the requirements of law and this Investment Policy.

### **3. Trustee's Duties and Objectives**

The District and the Treasurer are trustees of the public funds of the District and shall implement this Policy using the Prudent Investor Standard and the priority of investment objectives below.

#### 3.1 Prudent Investor Standard

The prudent investor standard is set forth in California Government Code Section 53600.3, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

## 3.2 Investment Objectives

3.2.1 The District's priority of investment objectives is set forth in Government Code Section 53600.5, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.”

3.2.2 The Treasurer shall pursue these objectives as follows:

- (a) *Safety of Principal:* In safeguarding the principal of District funds the District Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
- (b) *Liquidity:* In order to meet the District's liquidity needs, investments must be made so that maturity dates are compatible with cash flow requirements and, when required, permit easy and rapid conversion into cash.
- (c) *Return on Investments:* Investments will be undertaken to produce a market rate of return after first considering safety of principal and liquidity.

## 4. **Investment Instruments Allowed**

The District's funds may be invested in the following investment instruments:

### 4.1 Los Angeles County Pooled Surplus Investment Fund (PSIF)

The PSIF is a pooled investment fund created under Government Code Section 27000 et seq. and is administered by the Los Angeles County Treasurer and Tax Collector. PSIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the Los Angeles County Treasurer's investment staff. Investments in PSIF typically consist of those funds required to cover the District's operating needs.

### 4.2 State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund created under Government Code Section 16429.1 et seq. and is administered by the California State Treasurer. LAIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the State Treasurer's Office investment staff.

### 4.3 United States Treasury Bills, Notes, Bonds, Certificates of Indebtedness

Treasury bills, notes, bonds, and certificates of indebtedness are fixed-income investments issued by the U.S. Treasury Department for which the faith and credit of the United States are pledged for the payment of principal and interest.

#### 4.4 United States Government-Sponsored Enterprises (GSE)

GSEs consist of privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Members of these sectors include students, farmers and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

#### 4.5 Medium-Term Notes

Medium-term notes are all corporate and depository institution debt securities with a maximum ~~remaining~~ **original** maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. To be eligible as a District investment, medium-term notes must be rated “**AA**” or its equivalent or better by S&P Global Ratings, Moody’s Investor Services, Inc., or Fitch Ratings, Inc.

#### 4.6 County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments

LACSD Debt Instruments, as provided for in Government Code Section 53601(e) and more specifically described in the District’s Debt Management Policy, consist of the District borrowing from its Capital Improvement Fund, and the Joint Outfall System borrowing the Solid Waste System’s closure/post-closure funds for the construction of the Clearwater Tunnel Project.

### **5. Investment Limits and Allocation**

5.1 The Treasurer shall continuously evaluate market conditions economic data, interest rate trends and forecasts, and the District’s cash flow requirements. When appropriate, the Treasurer shall obtain quotations from brokers, dealers, banks, savings and loan institutions and the Los Angeles County Treasurer’s Office. Investments in the PSIF and LAIF will be monitored continually. All of these factors must be considered, among other things, in determining where, in what denomination and for what maturity investments are made.

5.2 There are no limits on the percentages of funds invested in any of the allowable investment instruments, except that:

5.2.1 No more than 60% of the District’s funds may be invested in any one GSE.

5.2.2 The total of the medium-term notes may not exceed 20% of the District’s funds, **with no more than 10% in aggregate in medium-term notes rated A.**

5.2.3 No more than 10% of the District’s funds may be invested in the securities of any single corporate entity or depository institution **rated AA or greater and no more than 2% of the District’s funds may be invested in the securities of any single corporate entity or depository institution rated A.**

5.3 The percentage limitations in Section 5.2 will apply at the time the investment is made. For purposes of calculating these percentages, District funds include all cash and investments of the District as reflected in the District’s most recent books of account.



## **6. Maximum Maturities**

- 6.1 The Treasurer shall match investments with anticipated cash flow requirements. Except for LACSD Debt Instruments, the Treasurer will not invest in securities with a remaining maturity of more than five years unless approved by the Board of Directors, either specifically or as a part of an investment program, at least three months prior to purchase.
- 6.2 Funds may be invested in LACSD Debt Instruments for the lesser of thirty years or until the funds are needed for the purpose for which they were collected or restricted, unless otherwise restricted by law.

## **7. Purchasing Entities**

- 7.1 As required by Government Code Section 53601.5, investments not purchased directly from the issuer or not purchased using pooled funds in PSIF or LAIF must be purchased from or through:
  - 7.1.1 An institution licensed by the State of California as broker/dealer, as defined in Section 25004 of the Corporations Code;
  - 7.1.2 A member of a federally regulated securities exchange;
  - 7.1.3 A national or state-chartered bank;
  - 7.1.4 A savings association or a federal association; or
  - 7.1.5 A brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

## **8. Investment Safekeeping**

To ensure a high degree of internal safety, all certificates or other evidence of securities or other investments purchased by or for the District will be held for safekeeping as required by law. The Treasurer may require any securities to be held by an entity other than the selling party of the security. Any specific investments must be held for safekeeping by a third-party custodian designated by the Treasurer and must be segregated from and not commingled with the funds of other investors or the County.

## **9. Reporting Requirements**

In accordance with Government Code Section 53646, the Treasurer shall prepare and submit a quarterly report to the Board of Directors. The quarterly report must comply with applicable law and include the security type, issuer, investment yield, date of maturity, par value, amount invested, current market value and source of this valuation. Any investments in PSIF or LAIF will be included with a summary of that pool's most recent investment statement.

## **10. Internal Control**

In addition to the certified public accountant's yearly independent audit of the District, the Treasurer will cause the District's Internal Auditor to conduct quarterly audits of the investment portfolio to ensure compliance with this Investment Policy and related procedures.

**11. Ethics and Conflicts of Interest**

Officers and employees of the Districts involved in the investment process are prohibited from personal business activities that could conflict with proper execution of the Districts' investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials must disclose to the Treasurer any material financial interests in financial institutions, broker dealers and vendors that conduct business with the Districts' and must disclose any larger financial/investment positions which could relate in a conflicting manner to the performance of the Districts' investment portfolio by filing Form 700 annually.

**12. Investment Policy Adoption**

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board of Directors. Prior to that review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of the each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_ .

**PROPOSED CHANGES SHOWN IN RED**

## **INVESTMENT POLICY B**

**County Sanitation District No. \_\_\_\_\***  
**of**  
**Los Angeles County**

**October 2018**

\* Districts Nos. 17, 27 and Newhall Ranch Sanitation District have all adopted investment policies with the same provisions.

## **TABLE OF CONTENTS**

---

---

1. Policy Statement .....	1
2. Treasurer; Administration.....	1
3. Trustee’s Duties and Objectives .....	1
4. Investment Instruments Allowed .....	2
5. Investment Limits and Allocation.....	3
6. Maximum Maturities .....	3
7. Purchasing Entities.....	4
8. Investment Safekeeping .....	4
9. Reporting Requirements .....	4
10. Internal Control.....	4
11. Ethics and Conflicts of Interest.....	4
12. Investment Policy Adoption .....	5

# **Investment Policy**

## **County Sanitation District No. \_\_\_ of Los Angeles County**

### **1. Policy Statement**

This Investment Policy of County Sanitation District No. \_\_\_ of Los Angeles County (District) provides for the prudent investment of the District's funds and the effective management of investment activities. This Policy covers all investment activities directly controlled by the District.

### **2. Treasurer; Administration**

- 2.1 The District's Chief Engineer and General Manager is hereby appointed Treasurer of the District, and is trustee of the District's funds.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and to manage, deposit, and invest District funds in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall report to the Board of Directors in accordance with the requirements of law and this Investment Policy.

### **3. Trustee's Duties and Objectives**

The District and the Treasurer are trustees of the public funds of the District and shall implement this Policy using the prudent investor standard and the priority of investment objectives below.

#### 3.1 Prudent Investor Standard

The prudent investor standard is set forth in California Government Code Section 53600.3, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

## 3.2 Investment Objectives

3.2.1 The District's priority of investment objectives is set forth in Government Code Section 53600.5, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.”

3.2.2 The Treasurer shall pursue these objectives as follows:

- (a) *Safety of Principal:* In safeguarding the principal of District funds the District Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
- (b) *Liquidity:* In order to meet the District's liquidity needs, investments must be made so that maturity dates are compatible with cash flow requirements and, when required, permit easy and rapid conversion into cash.
- (c) *Return on Investments:* Investments will be undertaken to produce a market rate of return after first considering safety of principal and liquidity.

## 4. **Investment Instruments Allowed**

The District's funds may be invested in the following investment instruments:

### 4.1 Los Angeles County Pooled Surplus Investment Fund (PSIF)

The PSIF is a pooled investment fund created under Government Code Section 27000 et seq. and is administered by the Los Angeles County Treasurer and Tax Collector. PSIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the Los Angeles County Treasurer's investment staff. Investments in PSIF typically consist of those funds required to cover the District's operating needs.

### 4.2 State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund created under Government Code Section 16429.1 et seq. and is administered by the California State Treasurer. LAIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the State Treasurer's Office investment staff.

### 4.3 Medium-Term Notes

Medium-term notes are all corporate and depository institution debt securities with a maximum ~~remaining~~ ~~original~~ maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. To be eligible as a District investment,

medium-term notes must be rated “AA” or its equivalent or better by S&P Global Ratings, Moody’s Investor Services, Inc., or Fitch Ratings, Inc.

#### 4.4 County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments

LACSD Debt Instruments, as provided for in Government Code Section 53601(e) and more specifically described in the District’s Debt Management Policy, consist of the District borrowing from its Capital Improvement Fund, and the Joint Outfall System borrowing the Solid Waste System’s closure/post-closure funds for the construction of the Clearwater Tunnel Project.

#### 4.5 Investments Allowed in the Los Angeles County Treasurer and Tax Collector’s Investment Policy

Any other investments allowed in the Los Angeles County Treasurer and Tax Collector’s Investment Policy and not already specified in this Policy are incorporated, by reference, into this Policy.

### 5. **Investment Limits and Allocation**

5.1 The Treasurer shall continuously evaluate market conditions economic data, interest rate trends and forecasts, and the District’s cash flow requirements. When appropriate, the Treasurer shall obtain quotations from brokers, dealers, banks, savings and loan institutions and the Los Angeles County Treasurer’s Office. Investments in the PSIF and LAIF will be monitored continually. All of these factors must be considered, among other things, in determining where, in what denomination and for what maturity investments are made.

5.2 There are no limits on the percentages of funds invested in any of the allowable investment instruments, except that:

5.2.1 The total of the medium-term notes may not exceed 30% of the District’s funds, with no more than 10% in aggregate in medium-term notes rated A.

5.2.2 No more than 10% of the District’s funds may be invested in the securities of any single corporate entity or depository institution rated AA or greater and no more than 2% of the District’s funds may be invested in the securities of any single corporate entity or depository institution rated A.

5.3 The percentage limitations in Section 5.2 will apply at the time the investment is made. For purposes of calculating these percentages, District funds include all cash and investments of the District as reflected in the District’s most recent books of account.

### 6. **Maximum Maturities**

6.1 The Treasurer shall match investments with anticipated cash flow requirements. Except for LACSD Debt Instruments, the Treasurer will not invest in securities with a remaining maturity of more than five years unless approved by the Board of Directors, either specifically or as a part of an investment program, at least three months prior to purchase.

6.2 Funds may be invested in LACSD Debt Instruments for the lesser of thirty years or until the funds are needed for the purpose for which they were collected or restricted, unless otherwise restricted by law.

## **7. Purchasing Entities**

- 7.1 Investments not purchased directly from the issuer or not purchased using pooled funds in PSIF or LAIF must be purchased through the Los Angeles County Treasurer. The Los Angeles County Treasurer, in accordance with Government Code Section 53601.5, must purchase these investments from or through:
- 7.1.1 An institution licensed by the State of California as broker/dealer, as defined in Section 25004 of the Corporations Code;
  - 7.1.2 A member of a federally regulated securities exchange;
  - 7.1.3 A national or state-chartered bank;
  - 7.1.4 A savings association or a federal association; or
  - 7.1.5 A brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

## **8. Investment Safekeeping**

To ensure a high degree of internal safety, all certificates or other evidence of securities or other investments purchased by or for the District will be held for safekeeping by the Los Angeles County Treasurer in a manner that reflects the District's ownership.

## **9. Reporting Requirements**

In accordance with Government Code Section 53646, the Treasurer shall prepare and submit a quarterly report to the Board of Directors. The quarterly report must comply with applicable law and include the security type, issuer, investment yield, date of maturity, par value, amount invested, current market value and source of this valuation. Any investments in PSIF or LAIF will be included with a summary of that pool's most recent investment statement.

## **10. Internal Control**

In addition to the certified public accountant's yearly independent audit of the District, the Treasurer will cause the District's Internal Auditor to conduct quarterly audits of the investment portfolio to ensure compliance with this Investment Policy and related procedures.

## **11. Ethics and Conflicts of Interest**

Officers and employees of the Districts involved in the investment process are prohibited from personal business activities that could conflict with proper execution of the Districts' investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials must disclose to the Treasurer any material financial interests in financial institutions, broker dealers and vendors that conduct business with the Districts' and must disclose any larger financial/investment positions which could relate in a conflicting manner to the performance of the Districts' investment portfolio by filing Form 700 annually.



**12. Investment Policy Adoption**

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board of Directors. Prior to that review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of the each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_ .

**PROPOSED CHANGES SHOWN IN RED**

**WASTEWATER  
FINANCIAL RESERVE POLICY**

**County Sanitation District No. \_\_\_  
of  
Los Angeles County**

**October 2018**

## **TABLE OF CONTENTS**

---

---

1.	Policy Statement .....	1
2.	Treasurer; Administration.....	1
3.	Types of Funds/Reserves .....	1
4.	System Funds .....	2
5.	Unrestricted Funds .....	2
6.	Designated Reserves .....	3
7.	Restricted Reserves .....	7
8.	Wastewater Financial Reserve Policy Adoption.....	10

# **Wastewater Financial Reserve Policy**

## **County Sanitation District No. \_\_ of Los Angeles County**

### **1. Policy Statement**

County Sanitation District No. \_\_ of Los Angeles County (District) is a provider of essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Given the impact these essential services have on public health, the environment, and the overall quality of life, very few options exist for service reduction levels in the event of revenue shortfalls or other funding deficiencies. Maintaining prudent financial reserves provides the resources to allow the District to continue to fulfill its commitment to deliver reliable and high quality service to its customers. Financial reserves provide significant benefits including:

- Stabilizes user charge rates, creating more certainty so ratepayers can better plan their budgets;
- Minimizes risk associated with borrowing, which can result in lower interest costs;
- Demonstrates the District's financial stability to credit rating agencies;
- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the District to effectively respond to economic, environmental, and regulatory changes.

### **2. Treasurer; Administration**

- 2.1 The District, through its Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy, and shall report to the Board of Directors (Board) in accordance with the requirements of law and this Policy.

### **3. Types of Funds/Reserves**

The District will maintain its financial assets in various "Funds" as described in this Policy. Fund balances will be maintained in amounts sufficient to meet appropriate target goals, as established in

this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The District's Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

### 3.1 Unrestricted

The Unrestricted Fund includes all monies collected or generated by or on behalf of the District, without regard to the source, except those that have been deemed to be Designated or Restricted. These monies are available for spending with no legal, regulatory, or Board-imposed restrictions.

### 3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities, land acquisition, and repair and replacement of existing assets. The Board may designate these purposes either through specific action or through approval of the annual budget. These monies are not otherwise legally restricted and the Board has the discretion to redesignate the actual or intended usage of these monies.

### 3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures, State Revolving Fund installment sales agreements). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

## 4. **System Funds**

The District may participate with other members of the County Sanitation Districts of Los Angeles County (collectively, the Districts) in separate agreements (e.g., the Joint Administration, Joint Outfall System, and Solid Waste System Agreements). Funds necessary for operations related to these agreements will be pooled. Except for Funds dedicated solely to the Solid Waste System, all pooled Funds will be held and managed by County Sanitation District No. 2 of Los Angeles County as the administrative district for the Districts in accordance with the respective agreements and District No. 2's Wastewater Financial Reserve Policy. District No. 2 will separately adopt a Solid Waste Reserve Policy for all Solid Waste Funds.

## 5. **Unrestricted Funds**

### 5.1 Operating Fund

#### 5.1.1 Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. **The Operating**

Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

#### 5.1.2 Targeted Goal

~~This is the initial repository for nearly all revenues of the District. The minimum targeted goal balance for the Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.~~

The minimum targeted goal balance on July 1 of each fiscal year is the projected net expenses during the first six months of that fiscal year. Net expenses shall be equal to all projected expenses less any anticipated revenues (e.g., industrial wastewater surcharges) and funding sources (e.g., State Revolving Fund loans).

#### 5.1.3 Review Timeline

The minimum targeted goal shall be reviewed annually in conjunction with the adoption of the District's final budget.

#### 5.1.4 Funding

All revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund.

## 6. Designated Reserves

The Designated Reserve Funds include the ~~Cash Flow Requirement Fund~~, the Emergency Fund, various Sinking Funds, the Operations and Maintenance Financial Stability Fund, the Capital Projects Financial Stability Fund, the Natural Disaster Fund, and any other funds designated by the Board of Directors other than Restricted Reserve Funds.

### 6.1 — ~~Cash Flow Requirement Fund~~

#### 6.1.1 — ~~Purpose:~~

~~The primary sources of revenue to the District are service charges and ad valorem property taxes. These revenues are typically received in discrete increments during the fiscal year, with the first increment received at the end of December. Thus, the District must have enough cash on hand each June 30 to ensure that it can meet any expenses incurred between the following July 1 and December 31.~~

#### 6.1.2 — ~~Targeted Goal:~~

~~The targeted goal balance will equal the projected net expenses during the six-month period following the fiscal year for which the budget is being adopted. Net expenses shall be equal to all projected expenses less any anticipated revenues (e.g., industrial wastewater surcharges) and funding sources (e.g., State Revolving Fund loans).~~

#### 6.1.3 — ~~Review Timeline:~~

~~The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.~~

~~6.1.4 Funding:~~

~~Each fiscal year, the Treasurer will transfer from its General Operating Fund to the Cash Flow Requirement Fund an amount equal to the targeted goal by June 1. This amount will be transferred back to the General Operating Fund on or after July 1 to ensure the District has sufficient cash to meet its budgeted obligations between July 1 and December 31.~~

6.2 Emergency Fund

6.2.1 Purpose:

The District budgets for all anticipated expenditures, but emergencies and unforeseen circumstances can occur during the course of the year. The Emergency Fund is intended to provide funding for work that must be undertaken to address emergencies or unforeseen circumstances (such as repairing a sinkhole) and to ensure the District can continue to provide all of its vital public services. .

6.2.2 Targeted Goal:

The targeted goal balance is the greater of:

- (a) 0.5% of the Net Sewerage Operations Capital Assets as identified in the most recently filed Comprehensive Annual Financial Report multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all Districts; or.
- (b) \$50,000.

6.2.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.2.4 Funding:

The Treasurer will on July 1 of each year transfer from or to its Operating Fund an amount equal to its targeted goal for the new fiscal year less its targeted goal for the just ended fiscal year.

6.3 Operations and Maintenance (O&M) Financial Stability Fund

6.3.1 Purpose:

The O&M Financial Stability Fund is a dynamic fund that will be used to facilitate wastewater rates transitioning smoothly from year to year. Monies will be withdrawn from this Fund in some years, allowing expenses to be met without having to impose spiked increases in the rates. In other years, monies will be deposited into this Fund,

replenishing it in lieu of having spiked decreases in the rates. In any given year, as the need arises, the District may use up to 10% of the Fund for any purpose without Board authorization, in addition to any use previously authorized as part of the rate setting and budget process. When monies are used from this Fund that drop the balance below the targeted goal, the Treasurer will prepare a plan to fully restore the Fund to its targeted goal by the latter of

(a) five years; or

(b) six years of the date for which the last adopted service charge becomes or has become effective.

#### 6.3.2 Targeted Goal:

The long-term targeted goal balance is equal to six months of O&M expenses plus one year of debt service (excluding any debt service that has a Debt Service Reserve Fund).

#### 6.3.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

#### 6.3.4 Funding:

The Treasurer will annually transfer moneys from its Operating Fund to the O&M Financial Stability Fund an amount equal to the annual targeted goal. If the transfer of the full targeted goal amount would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the targeted goal within ten years. In order for the fund balance to be less than 50% of the targeted goal, the sum of the monies in the fund plus the amount the District can borrow from its Capital Improvement Fund, pursuant to the District's Debt Management Policy, must be greater than 60% of the targeted goal.

#### 6.3.5 Additional Monies

The District may also place additional monies into the O&M Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

### 6.4 Capital Projects Financial Stability Fund

#### 6.4.1 Purpose:

The size and scope of capital projects (and the associated cost) varies from year to year, which could result in peaks and valleys in user charge rates if the projects are to be funded dollar-for-dollar in the year in which the expenses are incurred. This Fund will ensure that monies are not only available to meet capital expenses over the long-term, but also to meet the annual demand without requiring significant rate fluctuations.



6.4.2 Targeted Goal:

The targeted long-term average goal balance will be equal to the greater of

- (a) The difference between the projected maximum and average annual capital expenditures to be cash funded from revenues identified in the Capital Improvement Plan over the ensuing ten years; or
- (b) \$100,000.

6.4.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.4.4 Funding:

The Treasurer will annually transfer monies from its Operating Fund to the Capital Projects Financial Stability Fund an amount equal to the annual targeted goal. If the transfer would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the target goal within ten years. In no case shall the fund balance be less than \$100,000 immediately after the annual transfer.

6.4.5 Additional Monies

The District may place additional monies into the Capital Projects Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

6.5 Sinking Funds

6.5.1 Purpose:

Sinking Funds are the systematic accumulation of funds set aside for a specified time frame for the specific purpose of funding recurring major capital projects or their replacements. A separate sinking fund shall be established for each identified project, which can be specific to this District or shared among many Districts. The reserves in the sinking fund can only be drawn upon for the identified project for which it was established, unless otherwise approved by the Board(s) of Directors.

6.5.2 Targeted Goal:

The targeted goal balance at the end of the sinking period (i.e. the number of years over which the reserves will be accumulated) will be equal to the total anticipated cost of the project, exclusive of any costs that may be financed with outside funding sources. If the sinking fund is for a project to be undertaken jointly with other Districts, the District's share will be equal to the annual target goal multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all of the participating Districts.

### 6.5.3 Review Timeline:

The annual targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

### 6.5.4 Funding:

The Treasurer will annually transfer from its Operating Fund to each Sinking Fund an amount equal to its share of the targeted goal for that Sinking Fund divided by the number of years in the sinking period.

## 6.6 Natural Disaster Fund

### 6.6.1 Purpose:

The Natural Disaster Fund is designated to pay for short-term costs in the event of an earthquake or other natural disaster in order to continue District operations until state or federal relief funds are received. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster Fund will be pooled, shared proportionally among the Districts and Solid Waste entities.

### 6.6.2 Targeted Goal:

The initial targeted goal balance for the pooled Natural Disaster Fund is \$17 million. The Districts' Insurance and Claims Coordinator will determine the appropriate share for each District and Solid Waste entity, taking into consideration such factors as value of assets and risk assessment.

### 6.6.3 Review Timeline:

The targeted goal balance will be reviewed and adjusted every five years.

### 6.6.4 Funding:

At the end of each five-year review period, the Treasurer will make a transfer from the Operating Fund to the Natural Disaster Fund, as necessary, for the District's share of any increase in the targeted goal.

## 6.7 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the District. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

## **7. Restricted Reserves**

## 7.1 Other Post-Employment Benefits (OPEB) Reserve Fund

### 7.1.1 Purpose:

The Districts collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third party trustee.

### 7.1.2 Targeted Goal:

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' annual required contribution (ARC) as determined by a qualified actuarial consultant.

### 7.1.3 Review Timeline:

The actuarial review is required at least biennially.

### 7.1.4 Funding:

Each year the Treasurer will collectively transfer the ARC to the third party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Solid Waste entities in proportion to the salaries incurred by the District or Solid Waste entity since the previous transfer was made.

## 7.2 Debt Service Reserve Fund

### 7.2.1 Purpose:

Some debt instruments (e.g., bond indentures, installment sales agreements) may require a Debt Service Reserve Fund, typically equal to the maximum annual debt service over the life of the debt. A separate Debt Service Reserve Fund will be established for each debt instrument that requires it. The monies in each Debt Service Reserve Fund will only be used:

- (a) to support payment of principal and interest of outstanding obligations if revenues pledged for repayment are insufficient to meet the required payment; or
- (b) to extinguish the debt.

### 7.2.2 Targeted Goal:

The targeted goal balance for any Debt Service Reserve Fund must equal the amount required by the associated debt instrument.

### 7.2.3 Review Timeline:

Each Debt Service Reserve Fund balance will be reviewed annually as part of the continuing disclosure process required under the debt instrument.

#### 7.2.4 Funding:

Each Debt Service Reserve Fund will generally be funded at the time the debt is incurred, using a portion of the debt proceeds, if allowable. If the debt proceeds cannot be used to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund may be funded from any allowable District's monies. If the District makes a draw on the Debt Service Reserve Fund, the Debt Service Reserve Fund must be replenished in the time and manner specified in the debt instrument.

### 7.3 Capital Improvement Fund

#### 7.3.1 Purpose:

New users and existing users that significantly increase their wastewater discharge are required to pay a connection fee. The connection fee is intended to recoup the incremental cost of expansion necessary to accommodate the additional discharge. The capital improvement portion of the connection fee is deposited into one or more Capital Improvement Funds in accordance with the District's Master Connection Fee Ordinance. Funds are withdrawn as necessary to fund expansion-related capital projects. If the monies are not needed in the short-term, the District may borrow the funds as long as they are repaid with interest before they are needed.

#### 7.3.2 Targeted Goal:

There is no targeted goal balance for the Capital Improvement Fund. The amount of money deposited into the Capital Improvement Fund is dependent on the rate at which additional burdens are placed on the wastewater system. The Capital Improvement Fund balance varies depending on connection fee revenues, expenditures for capital projects, and permitted borrowing from the Fund.

#### 7.3.3 Review Timeline:

Connection fee rates will be reviewed annually.

#### 7.3.4 Funding:

The capital improvement portion of the connection fees will be deposited into the Capital Improvement Fund in accordance with the District's Master Connection Fee Ordinance.

### 7.4 Bond Construction Fund

#### 7.4.1 Purpose:

When bonds are issued, all of the proceeds are received at the time of issuance. Except for a small portion which is used for the cost of issuance, the proceeds are placed into a Bond Construction Fund and can only be used for the purposes identified in the Official Statement, Tax Certificate, and Installment Purchase Agreement for the bond issuance.

#### 7.4.2 Targeted Goal:

The amount of money in the Bond Construction Fund is dependent on the size of the bond issuance, with the expectation that the proceeds will be expended in the time frames detailed in the Tax Certificate.

7.4.3 Review Timeline:

No review is necessary as there is a single deposit into each Bond Construction Fund.

7.4.4 Funding:

Bond proceeds, except for the cost of issuance, capitalized interest, any required debt service reserve funds, and refunding escrows, will be deposited into the Bond Construction Fund at the time of issuance.

7.5 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

**8. Wastewater Financial Reserve Policy Adoption**

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. Prior to such review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_.

**NO CHANGES BEING PROPOSED**

**DEBT MANAGEMENT POLICY**

**County Sanitation District No. \_\_\_  
of  
Los Angeles County**

**October 2018**

**TABLE OF CONTENTS**

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1. Policy Statement ..... 1

2. Treasurer; Administration..... 1

3. Purpose of Debt ..... 1

4. Debt Management..... 2

5. Types of Debt..... 4

6. Method of Sale..... 5

7. Criteria for Issuing Debt ..... 6

8. Refinancing/Refunding Existing Debt..... 7

9. Credit Enhancement..... 8

10. CDIAC Reporting ..... 8

11. Municipal Advisor ..... 8

12. Debt Management Policy Adoption..... 8

# Debt Management Policy

## County Sanitation District No. \_\_ of Los Angeles County

### 1. Policy Statement

- 1.1 This Debt Management Policy has been developed to provide guidelines for the issuance of bonds and other forms of debt to finance capital improvements, equipment purchases, and property acquisition for County Sanitation District No. \_\_ of Los Angeles County (District), in compliance with California Government Code Section 8855(i). These guidelines will assist in determining appropriate uses for debt financing, structuring of debt, and meeting the District's financial objectives. While long-term financing is an effective way to spread these costs over time, the District must also consider maintaining and improving credit strength, providing certainty and cash flow flexibility in the annual budgeting process, and prioritizing future capital infrastructure needs.
- 1.2 The District will follow sound financial management practices, including
  - Multi-year planning to facilitate timely and equitable changes to rates and charges;
  - Maintaining prudent reserves;
  - Ensuring access to the credit markets;
  - Establishing and maintaining good credit ratings;
  - Achieving the lowest aggregate financing costs consistent with an acceptable degree of risk and the recognition of ratepayer affordability.

### 2. Treasurer; Administration

- 2.1 The Board of Directors (Board) must approve debt issuance.
- 2.2 The District, through its Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District. The Treasurer, or his or her designee, is hereby authorized to implement this Policy.
- 2.3 The Treasurer will use these guidelines to review and report to the Board any long-term debt implications, including costs of borrowing, historical interest rate trends, credit enhancement capacity, opportunities to refund existing debt obligations, and other financial considerations.

### 3. Purpose of Debt

- 3.1 Debt for Long-Term Capital Improvements

Debt financing will only be used to fund long-term capital improvements, including construction, equipment purchases, and property acquisition costs. By spreading the cost of a



project over a number of years the financial impact in any given year can be lessened, reducing the impact on the corresponding user charges. Long-term debt also helps ensure that future users, who will benefit from the improvements, will pay a share of its costs.

### 3.2 Refunding/Refinancing

If economically beneficial and cost-effective, new debt may be issued in order to refinance existing debt. This can include refunding existing bonds, prepaying loans or other debt instruments, and converting short-term debt such as commercial paper into long-term debt.

### 3.3 Emergencies

Debt may be issued in the event of an unforeseen emergency that either impacts the District's ability to continue to operate or results in depletion of the District's reserves below the targets set by the Board in the District's Financial Reserve Policy.

### 3.4 No Debt for Operations & Maintenance

Debt will not be used to fund ongoing operational expenses.

## **4. Debt Management**

### 4.1 Internal Control Procedures on the Use of Debt

Expenditures of the proceeds from each debt instrument must be expended in the manner detailed in the associated documents. Records must be maintained in accordance with any covenants related to the debt instrument and IRS regulations, including the following:

- Requisitions to the trustee, if one is utilized, from the project construction fund
- Trustee records relating to other funds and accounts
- Verifiable information showing payments to third parties
- An accounting of all proceeds spent on the approved capital project

### 4.2 Investment of Debt Proceeds

Any proceeds to be held by the District (or a trustee on the District's behalf) between the time the debt is issued and the time the proceeds are expended on the approved capital project will be invested to maximize safety, liquidity, and return. The District's Investment Policy and the requirements of the debt instrument govern objectives and criteria for investment of proceeds.

### 4.3 Credit Ratings

The Treasurer will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising rate payer affordability. Ratings are one reflection of the general fiscal soundness of the District and the capabilities of its management. By maintaining the highest possible credit ratings, the District can issue debt at a lower cost. To enhance creditworthiness, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning.

### 4.4 Disclosure Requirements and Investor Relations

4.4.1 The District will comply with disclosure requirements in a timely and comprehensive manner including:

- Adhering to the “antifraud rules” as promulgated in the Securities Act of 1933, Section 17; Securities and Exchange Act of 1934, Section 10(b); and regulations adopted by the U.S. Security and Exchange Commission’s (SEC) under those Acts, particularly Rule 10b-5.
- Preparing bond disclosures as stipulated by the SEC’s Rule 15c2-12.
- Providing information to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system.
- Maintaining compliance with all accounting and disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB) and the SEC.
- Reporting to the California Debt and Investment Advisory Commission (CDIAC).
- Complying with any other reporting required by the issuer of debt.

4.4.2 Disclosure training sessions will be conducted as needed. Training sessions must include education on the District’s disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the District’s staff and members of the Board.

### 4.5 Debt Covenants

General financial reporting and other tax certification requirements embodied in debt covenants must be monitored to ensure that the District is in compliance. These may include:

- Annual appropriation of revenues to meet debt service payments.
- Timely transfer of debt service payments to the trustee or paying agent.
- Compliance with insurance requirements.
- Compliance with rate covenants where applicable.
- Compliance with all other covenants.

#### 4.6 Debt Service Coverage Target

The District will set user charge rates with a targeted goal of maintaining a projected debt service coverage ratio of 130% on all senior plus subordinate debts. The debt service coverage ratio is calculated as the projected annual net revenues (i.e. revenues remaining after payment of operation and maintenance expenses) divided by the estimated annual debt service. The objective is to maintain a debt service coverage ratio above the legally-required minimum to sustain a high quality credit rating.

#### 4.7 Debt Service Reserve Fund

A debt service reserve fund will be established only if it:

- (a) provides an economic or credit advantage that outweighs the cost of funding the reserve; or
- (b) is a condition of the debt instrument.

If a debt service reserve fund is required, it must be maintained in accordance with the provisions of the debt instrument and the requirements of the District's Financial Reserve Policy.

### **5. Types of Debt**

If the use of debt is appropriate, the Treasurer will evaluate the types of debt available and make a determination as to the debt instrument best suited for the particular purpose. Unless otherwise specifically authorized by the Board, debt will be issued with fixed interest rates through final maturity. Types of debt that may be issued by the District include:

#### 5.1 Revenue Bonds

These bonds are typically long-term obligations issued to fund a specific project or purpose. They are backed solely by the future revenues expected to be received by the District in accordance with the agreed-upon bond covenants. Pledged revenues may include user charges, ad valorem taxes, contract revenue, interest, or any other sources of allowable revenue. Revenue bonds can be issued individually by the District or as part of a pool with other Districts under the Marks-Roos Local Bond Pooling Act of 1985, including through the Los Angeles County Sanitation Districts Financing Authority. Approval by the Financing Authority Commission and the District's Board is required before revenue may be issued bonds.

#### 5.2 Clean Water State Revolving Fund (SRF) Loans

The SRF program is a low-interest loan program administered by the California State Water Resources Control Board. Loan proceeds can be used to finance a variety of projects related to water quality, including sewers, treatment plants, water recycling facilities, and stormwater improvements. Board approval is required for each SRF loan.

#### 5.3 Land-Secured Financing

The Mello-Roos Community Facilities Districts Act of 1982 authorizes the District to form community facilities districts (CFDs), subject to voter approval, for the sole purpose of financing infrastructure and certain services. CFDs are authorized to issue bonds secured by special taxes to finance both localized improvements and regional facilities. In addition to voter approval, Board approval is required to form a CFD.

#### 5.4 Commercial Paper

Commercial Paper is a short-term, unsecured note that pays a fixed rate of interest for a term ranging from seven to 270 days. It may be used as a source of interim construction financing until it is appropriate to replace it with a long-term bond, usually at or near the end of the construction period. Maturing principal and the interest thereon can be rolled to a subsequent maturity date at the then-prevailing interest rate. Board approval is required to issue Commercial Paper debt.

#### 5.5 Clean Renewable Energy Bonds (CREBs)

CREBs can only be used to finance clean renewable energy projects. Because bondholders of this type of debt receive federal tax credits in lieu of all or a portion of traditional bond interest, the District must apply to the Internal Revenue Service for a CREB allocation. Board approval is required before CREBs may be issued.

#### 5.6 County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments

**Intra-District Debt** – This is a debt in which the District lends itself money from its Capital Improvement Fund for short-term cash flow needs related to the construction of upgrade capital projects. Authorization for this type of loan has previously been established in the District’s Master Connection Fee Ordinance.

**Inter-System Debt** – This is a structured debt agreement in which the Solid Waste System (with District No. 2 acting as the authorized representative) lends its closure/post-closure funds to Districts within the Joint Outfall System for the construction of the Clearwater Tunnel Project. The funds being loaned will be considered an investment on the part of the Solid Waste System and must comply with District No. 2’s Investment Policy. Such an agreement would require consideration by the Personnel Committee and approval by participating Districts’ Boards prior to moving forward.

#### 5.7 Leases

In certain cases, leases may be considered debt under Government Code Section 8855(i), in particular when the lease may lead to purchase of the asset, the total lease payments approach the value of the asset, or when the lease term approaches the life of the asset. The District will comply with all debt-related requirements for the lease in the event the lease is considered debt under the criteria of Section 8855(i). Board approval is required to enter into such a lease.

#### 5.8 Other Debt Instruments

The District may consider other available financing mechanisms that satisfy the conditions of this Debt Policy if the costs and structure are the most cost-effective option for the District. This can include other state or federal loans that, from time to time, may make funds available at or below market interest rates for specific types of projects or programs. Board approval is required before incurring any such debt.

### **6. Method of Sale**

When issuing bonds, the District will select the method of sale which best fits the type of bond being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

## 6.1 Competitive Sale

In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest true interest cost is awarded the sale.

## 6.2 Negotiated Sale

In a negotiated sale, the underwriter or underwriting syndicate is selected through a Request for Proposal (RFP) process. The underwriter's fee is negotiated prior to the sale. The interest rate, redemption features and principal amortization are based on current market conditions on the sale date.

## 6.3 Private Placement

Private placement bonds are not publicly issued or publicly traded but rather are funded through direct negotiation with one or a select number of private financial institutions. The private financial institution is effectively providing a loan to be repaid over time. In general, private placements do not require many of the disclosure requirements found in public offerings. Private financial institutions typically do not require the bonds to be rated by a credit rating agency.

# 7. **Criteria for Issuing Debt**

7.1 The Treasurer will evaluate the need for issuing debt, taking into consideration the anticipated capital program and the long-term rate projections. The goals of reasonable and stable rates, compliance with the Financial Reserve Policy, and ensuring operations and maintenance are sufficiently funded per the District mission statement will be factored into the decision-making process.

7.2 Projects will only be financed if the District has the ability to repay the debt and fund appropriate operations and maintenance costs for the asset. The repayment period for any debt must not exceed the anticipated useful life of assets or improvements funded by the debt.

7.3 If incurring debt is the best option for funding a particular project, the following criteria will be used to determine the optimum debt structure:

7.3.1 The term, repayment structure, and interest rate mode must ensure other financial objectives are met, specifically the need to comply with the Financial Reserve Policy and the desire for stable rates.

7.3.2 The type of debt instrument must be optimized to achieve the lowest net present value cost.

7.3.3 Any conditions for the debt must not place undue burdens or obligations on the District.

7.4 Prior to issuing debt, the following metrics must be calculated for each year during the term of the debt and compared to the indicated goals:

Metric (all District debt)	Targeted Goal
Debt Service Coverage Ratio	≥ 1.30
Total debt service as a percent of total operating expenses plus debt service	≤ 30%
Debt-to-Capitalization Ratio	≤ 50%

7.5 An anticipated variation from the goals does not mean that the debt issuance cannot move forward, but should be justified by a regulatory need or other mitigating factor. For example, a regulatory requirement that results in the construction of a major capital facility could push the percentage of debt to operating budget well above 20%. However, if the debt service coverage ratio remains above 1.30, the Treasurer has demonstrated the District has the ability to make the required annual payments and can absorb the debt. Similarly, a high debt-to-capitalization ratio can be offset by limited future capital needs.

7.6 If new debt is being proposed, the Treasurer will calculate both:

- (a) the proposed new total debt service as a percentage of operating expense plus debt service; and
- (b) the ensuing debt-to-capitalization ratio.

If either ratio does not comply with the targeted metrics, the Treasurer must develop a plan to address possible means of bringing the District back into compliance or, if it is not possible, the justification for why the District should proceed with issuing the new debt. The Treasurer must document the plan/justification in a report to the Board prior to any approval to take on additional debt.

7.7 Each year the Treasurer will evaluate and compare the District’s debt service coverage ratio to the targeted goal. If the goal is unmet, the Treasurer will develop a plan to correct the problem and that plan will be used as part of the budget preparation process and for analyzing rates to be proposed during the next rate-setting cycle. The plan to re-establish an appropriate debt service coverage ratio must utilize a combination of adjustments to the anticipated capital projects, service charges adjustments and use of reserves. The plan must also consider compliance with the District’s Financial Reserve Policy. The Treasurer will report the debt service coverage ratio, compliance with the goals, and the plan (if needed) to the Board with the annual budget.

**8. Refinancing/Refunding Existing Debt**

8.1 A debt refinancing or refunding will be deemed to be of economic benefit and cost effective if the net present value savings as a percentage of the refunded par amount is at least 3% for any current refunding transaction and 5% for any advance refunding transaction.

8.2 Some refinancings or refundings may be executed for other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. Likewise, if the economic benefits outweigh the costs, and the refunding opportunity would otherwise be lost, a refinancing or refunding may be recommended even if the savings do not meet the 3% criteria.

**9. Credit Enhancement**

Credit enhancement may be used to improve or establish a credit rating on a District’s debt instrument. Types of credit enhancement include letters of credit, bond insurance, and surety policies. The use of credit enhancement will be evaluated up until the time the debt instrument is priced but will only be used if it reduces the overall cost of the proposed financing or otherwise furthers the District’s overall financial objectives.

**10. CDIAC Reporting**

10.1 The Treasurer will report all debt issuances to CDIAC, and must comply with all CDIAC requirements in connection with the District’s debt issuances.

10.2 In the case of debt issued by the Los Angeles County Sanitation Districts Financing Authority, the proceeds of which will be used by the District, the Treasurer will make all certifications required under Government Code Section 8855(i) for the purposes of the Financing Authority’s Debt Policy or reporting. All certifications required by Government Code Section 8855(1) must be executed by the Treasurer or his or her delegate.

**11. Municipal Advisor**

11.1 The District may hire a municipal advisor for assistance and advice in structuring its debt portfolio. This can include help in evaluating the best type of debt instrument to use, the merits of the various methods of sale, and assessing whether refunding opportunities exist. In particular with bond transactions, the municipal advisor will assist in selecting the rest of the financing team (including bond counsel, underwriters, trustees, and rating agencies), the development of the overall financing schedule, and preparation of the Official Statement.

11.2 The municipal advisor can come from a firm that also engages in municipal bond underwriting or brokerage services; however, preference will be given to firms that act as independent municipal advisors. While serving as the District’s municipal advisor, any firm that engages in these other services may not act simultaneously or subsequently in those capacities on any financing for which the firm was hired to act as a municipal advisor. Additionally, any firm that is acting as a municipal advisor for the District may not act as a municipal advisor or investment banker for another party involved in the same municipal transaction.

**12. Debt Management Policy Adoption**

This Policy will be reviewed on an annual basis and any modifications made must be approved by the Board. Prior to such review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_.