

**MERCED IRRIGATION DISTRICT FINANCING AUTHORITY
BOARD OF DIRECTORS MEETING**

Tuesday, June 13, 2017

11:00 A.M.

Or Immediately Following the MID Board of Directors Meeting

MERCED CIVIC CENTER

678 West 18th Street

Merced, CA 95340

Call to Order / Pledge of Allegiance

Roll Call

Agenda Revisions /Corrections

The Board will consider corrections or additions to the agenda of items requiring immediate action that have come to the attention of the Board after posting of the agenda

Public Comment (5 minutes per speaker)

Interested persons in the audience are welcome to introduce any topic within the District's jurisdiction. Matters presented under this heading may be discussed but no action will be taken by the Board at this meeting.

Consent Calendar

All matters listed in the Consent Calendar are considered routine by the Board of Directors and will be adopted by one action of the Board unless any Board Member has any questions or wishes to make a statement or discuss an item. In that event, the President of the Board will remove that item from the Consent Calendar and place it for separate consideration.

1. Unapproved Minutes - July 7, 2015

Action/Discussion Items

1. **Resolution No. 2017-01**: The Board will review and consider adopting Resolution No. 2017-01 approving a proposed Debt Management Policy for the Merced Irrigation District Financing Authority.

Closed Session

Adjournment

NOTE: No action may be taken on any items not appearing on this agenda unless:

: There is a finding of an emergency situation by majority.

: A two-thirds vote of the legislative body or a unanimous vote if less than two-thirds of the members are present.

: An item was properly posted, but carried over for five days.

Any materials that are public records that relate to an agenda item, and are distributed to the board of directors less than 72 hours prior to the meeting shall be available for public inspection at the offices of the Merced Irrigation District Financing Authority, 744 W. 20th Street, Merced, CA during normal business hours. Additionally, any materials presented during open session are available for public inspection at the same address.

MERCED IRRIGATION DISTRICT FINANCING AUTHORITY
UNAPPROVED MINUTES
July 7, 2015

The Board of Directors of the Merced Irrigation District Financing Authority met on the above date, pursuant to notice, at 12:40 P.M. in the Chamber Room at Merced Civic Center.

PLEDGE OF ALLEGIANCE

Roll call showed the following Board members present:

Directors:

Jeff Marchini	<i>Division 1</i>
Scott Koehn	<i>Vice Chair - Division 2</i>
Dave Long	<i>Chair – Division 3</i>
Billy Pimentel	<i>Division 5</i>

The following Director was absent:

Kevin Gonzalves	<i>Division 4</i>
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The following MID Employees were also present:

General Manager	John Sweigard
General Counsel	Phillip McMurray
Director of Administrative Services	Jennifer Carter
Chief Financial Officer	Brian Stubbert
Executive Assistant to General Manager	Crystal Guintini

CORRECTIONS OR ADDITIONS TO THE AGENDA

None

PUBLIC COMMENT

None

CONSENT CALENDAR

1. **Resolution No. 2015-01**: The Board will review and consider adopting Resolution No. 2015-01 appointing Secretary for the MID Financing Authority
2. **Resolution No. 2015-02**: The Board will review and consider adopting Resolution No. 2015-02 establishing regular Board meeting schedule.

On a motion by Vice Chair Koehn to accept the Consent Calendar as presented with an amendment to Resolution No. 2015-02 with quarterly Board meetings scheduled for the first Tuesday of the quarter, seconded by Director Pimentel; the Board unanimously accepted the Consent Calendar. The vote was as follows:

Ayes: Koehn, Long, Marchini, Pimentel
Noes: None
Abstain: None
Absent: Gonzalves

ACTION/DISCUSSION ITEMS

The Board reviewed and considers adopting Resolution No. 2015-03 approving a Conflict of Interest Code for the MID Financing Authority. After further discussion Vice Chair Koehn made a motion to accept Resolution No. 2015-03, seconded by Director Pimentel; the Board unanimously approved the motion. The vote was as follows:

Ayes: Koehn, Long, Marchini, Pimentel
Noes: None
Abstain: None
Absent: Gonzalves

REPORT ITEMS

None

CLOSED SESSION

None

ADJOURNMENT

President Long adjourned the meeting at 12:45 P.M.

The next scheduled Board of Directors meeting is Tuesday, October 6, 2015

Scott Koehn, Vice Chair

Dave Long, Chair

MEETING OF THE BOARD OF DIRECTORS OF THE MERCED FINANCING AUTHORITY

DATE: 5/25/2017

AGENDA ITEM:

The Board will review and consider adopting a proposed Debt Management Policy for the Authority.

RECOMMENDED ACTION:

Staff recommends the full Board adopt the proposed Debt Management Policy, as presented.

BACKGROUND:

On May 21, 2015 the Merced Irrigation District (the District) formed the Merced Irrigation District Financing Authority (the Authority). The Merced and Modesto Irrigation Districts are the two members of the Authority. Among the purposes of the Authority is to provide additional options and flexibility when funding capital improvements or other projects. The Authority is authorized to finance and contract for public capital improvements, including refinancing of prior debt, acquiring, selling and financing capital improvements, working capital, liability or other projects as determined appropriate by either the Merced or Modesto Irrigation Districts.

On September 12, 2016 Senate Bill No. 1029 was passed into law, effecting any new debt issuance on or after January 21, 2017. SB1029 established rules requiring agencies such as the Authority to have a Debt Management Policy that complies with provisions within SB 1029 in place prior to the new debt issuance. At this time, there is no proposal to issue any new debt or refund any prior indebtedness.

Consistent with SB 1029, staff for the Authority develops a draft Debt Management Policy that complies with the new law. A copy of the Debt Management Policy is attached for the Boards review. Authority staff will be available at the Board meeting to provide additional information and answer any questions.

ALTERNATIVES/PROS AND CONS OF RECOMMENDED ACTION:

PROS:

The Authority will be in compliance with SB 1029 should the issuance of any new debt be proposed, or the refunding of any prior debt be desired.

CONS:

None

ALTERNATIVES:

The Board could decide to decline to adopt the proposed new Debt Management Policy, but in that case, the Authority would likely have difficulty issuing new debt in the future.

FISCAL IMPACT:

None

ATTACHMENTS:

Description	Type
☐ Debt Management Policy	Backup Material

MERCED FINANCING AUTHORITY DEBT MANAGEMENT POLICY

POLICY STATEMENT

This policy documents Merced Financing Authority (“MFA”, or the “Authority”) goals for the use of debt instruments and provides guidelines for the use of debt for financing MFA infrastructure and project needs. This policy applies to debt issued by the Authority to finance on behalf of the Merced Irrigation District’s electric, hydroelectric and water systems. The Authority’s overriding goal in issuing debt is to respond to, and provide for infrastructure, capital project and other financing needs while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. MFA issues debt instruments, administers Authority-held debt proceeds and makes debt service payments, acting with prudence, diligence and attention to prevailing economic conditions.

MFA will assist in paying for Merced Irrigation District infrastructure projects, after the District determined their financing needs from a combination of current revenues, available reserves, if any, and prudently issued debt. MFA believes that debt can provide an equitable means of financing projects for its customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to meet financing if the District determines that (i) it meets the goals of equitable treatment of all customers, both current and future, (ii) it is the most cost-effective means available (iii) it is fiscally prudent, responsible, and diligent under the prevailing economic conditions and (iv) there are other important policy reasons thereof.

Purpose and Use of Debt

The Authority will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term capital projects and thus ensure that existing and future District users pay their fair share. Long-term capital projects include the acquisition of land, facilities, works, improvements and supplies of electricity or water as applicable; and enhancements or enlargements to existing capacity and facilities for obtaining, importing, transmitting, transporting and delivering additional quantities of electricity or water as applicable. These investments are typically included in the District’s, appropriate capital improvement program. Bond proceeds can be issued to fund the planning, design, land acquisition, construction, attached fixtures or equipment and moveable pieces or equipment, or other costs as permitted by law.

Purpose of Policy

The purpose of this debt management policy is to:

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

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

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

Types of Debt

Revenue bonds, notes, lines of credit, certificates of participation, special tax or special assessment bonds, capital leases, commercial paper, and lease-purchase financings will be treated as debt and subject to these same policies.

II. CONDITIONS FOR DEBT ISSUANCE

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

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

- Achieve the lowest cost of capital
- Ensure District ratepayer equity
- Maintain the adopted credit rating strategy and access to credit enhancement
- Preserve financial flexibility of either the District water, electric, hydroelectric and park systems, as applicable
- Stay in compliance with the requirements of the District's Energy Resources, Water Resources, and Hydroelectric Reserve Policies

Standards for Use of Debt Financing

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

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

Debt Capacity

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

Financing Criteria

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

Together with the District, the MFA will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

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

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

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

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

Short-Term Debt – MFA may utilize short-term borrowing for operating needs if such debt is established by approval Board, or to serve as a bridge for anticipated revenues, construction financing or future bonding capacity. In the case where short-term debt is approved by the Board under a revolving line of credit or other short-term loan facility, Staff may access the facility at any time after Board approval establishing such facility.

Variable Rate Debt – Variable rate debt products are rolling series of short-term investments that are resold periodically and are therefore priced at the short-end of the yield curve at low interest rates. If an issuer accepts the risks inherent in variable interest rates, the issuer can take advantage of some of the lowest rates available in the market. Variable rate debt may be appropriate for the Authority's portfolio, especially in an environment where increased interest earnings on invested funds offset the increased cost of variable rate debt. Variable rate debt products include variable rate demand obligations and commercial paper. The Authority may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable rate debt, the Authority will analyze the risks associated with the variable rate debt products, including derivative products.

Use of Variable Rate Debt – MFA will not issue variable interest rate debt without the specific approval of the Board. MFA may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable rate debt, MFA will analyze, among other things, the risk associated with the variable rate debt and the impact on MFA's overall portfolio. Before issuing variable rate debt, MFA will analyze its cash position; MFA will not issue variable rate debt in an amount that exceeds 115% of its cash position at the time of issuance of any variable rate debt. In any event, the aggregate par amount of all variable rate debt products, variable rate debt associated with derivative products resulting in "synthetically fixed rate debt" shall not exceed 30% of total MFA outstanding debt.

Derivatives – This policy has been developed to guide the Authority in its use of interest rate risk mitigation products such as interest rate swaps and other such financing techniques. These financing products can increase the Authority's financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. Careful monitoring of such products is required to preserve Authority credit strength and budget flexibility. Derivatives will not be used

to speculate on perceived movements in interest rates. The notional amount of derivative products shall not exceed 15% of total Authority outstanding debt.

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

Use of Derivatives

The use of derivative products can, among other things, increase Authority financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. Careful monitoring of such products is required to preserve Authority credit strength and budget flexibility. Swaps will not be used to speculate on perceived movements in interest rates. Before the Authority enters into any derivative product associated with debt, the Board shall adopt an interest rate swap policy.

Refinancing Outstanding Debt

The Chief Financial Officer shall have the responsibility to evaluate potential refunding opportunities. The Authority will consider the following issues when analyzing potential refinancing opportunities:

Debt Service Savings – The Authority shall establish a target savings level equal to 3% of the par of debt refunded on a net present value (NPV) basis. This figure will serve only as a guideline and MFA may determine that a different savings target is appropriate; MFA shall evaluate each refunding opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

- Remaining time to maturity
- Size of the issue
- Current interest rate environment
- Annual cash flow savings
- The value of the call option
- Other factors approved by the Authority

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

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

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

Economic versus Legal Defeasance - When evaluating an economic versus legal defeasance, MFA shall take into consideration both the financial impact on a net present value basis as well

as the rating/credit impact. MFA shall take all necessary steps to minimize negative arbitrage by, among other things, optimizing the yield on its refunding escrows investments.

Outstanding Debt Limitations

Prior to issuance of any debt, MFA shall consider and review the latest credit rating agency reports and guidelines for either the electric or water system, as applicable, to ensure the applicable credit ratings and financial flexibility remain at levels consistent with the most highly rated comparable public agencies. Prior to the issuance of new debt, MFA or the District, as applicable, will conduct a thorough financial analysis, which shall include projected results for five fiscal years subsequent to the date of expected issuance of the new debt, of, at least, the following key financial metrics:

Debt service coverage
Days Cash and
Debt to asset ratio

MFA will consider the results of such analysis and may defer the issuance of debt should any of the key financial ratios be outside the limits of financial prudence.

Method of Issuance

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

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

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

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

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

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

III. MARKET COMMUNICATION, DEBT ADMINISTRATION AND POST-ISSUANCE REQUIREMENTS

Rating Agencies

The Chief Financial Officer shall be responsible for maintaining the Authority's relationships with Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investors Service. MFA shall, from time to time, deal with one, two or all of these agencies as circumstances dictate. In addition to general communication, the Director of Finance shall (1) meet, (either in person or via phone) with credit analysts at least once each fiscal year, and (2) prior to each competitive or negotiated sale, offer conference calls or meeting(s) with credit rating analysts in connection with the planned sale.

Observance of Debt Covenants

The Chief Financial Officer will periodically ensure that MFA is in compliance with all legal covenants for each debt issue. The Authority may consult with its bond counsel and other legal counsel and advisors, as needed, regarding the compliance of such legal covenants.

Issuers that borrow money on a tax-exempt basis are now required to report to the Internal Revenue Service whether they have established written procedures to comply with applicable requirements of federal tax law for all issues of bonds, certificates of participation, bond anticipation notes, tax anticipation notes, revenue anticipation notes, financing leases, energy performance contract financings, and any other instruments evidencing the borrowing of money (collectively the "Obligations"). The procedures set forth in this Exhibit will assist MFA in meeting the post-issuance requirements of federal tax law necessary to preserve the tax-exempt status of interest on tax-exempt Obligations issued by the Authority.

These procedures address Obligations issued for physical facilities, property and equipment for the Authority (the "Capital Obligations") and Obligations issued to finance cash-flow operating requirements of the Authority (the "Cash-Flow Obligations").

I. GENERAL PROCEDURES

A. Responsible Official. The officer of the Authority with primary responsibility for the financial management of the Authority (herein referred to as the "Responsible Official") will identify such officers and employee(s), including the Authority Treasurer, who will be responsible for each of the procedures listed below, and will notify such officers and employee(s) of the responsibilities, and provide those persons with a copy of these procedures. Upon employee transitions, the Responsible Official will advise the new personnel of their responsibilities under these procedures and will ensure they understand the importance of these procedures. If employee positions are restructured or eliminated, the Superintendent of the Authority will reassign responsibilities as necessary.

B. Issuance of Obligations

1. Bond Counsel. The Authority will retain a firm of nationally-recognized, (whose name appears in the most recent published version of *The Bond Buyer's Municipal Marketplace* Red Book), bond counsel ("Bond Counsel") to deliver a legal opinion in connection with the issuance of all Obligations. The Responsible Official will consult with Bond Counsel and other legal counsel and financial advisors, as needed, following the issuance of Obligations to ensure that applicable post-issuance requirements are met, so that interest on each issue of Obligations will be excluded from gross income for federal income tax purposes.

2. Documentation of Tax Requirements. The federal tax requirements relating to each issue of Obligations will be set forth in a Tax Certificate (the "Tax Certificate") executed in connection with each issue of Obligations, which will be included in the closing transcript for each issue of Obligations. The Tax Certificate will contain certifications, representations, expectations and factual statements relating to the restriction on use of the assets and facilities financed or refinanced with Obligations by persons or entities other than the Authority, changes in use of the assets and facilities financed or refinanced with the proceeds of Obligations, restrictions applicable to the investment of the proceeds of any Obligations and other moneys relating to the Obligations, and arbitrage rebate requirements. The Responsible Official will review the Tax Certificate prior to the date of issue of each issue of Obligations.

3. Information Reporting. In connection with each issue of tax-exempt Obligations, the Authority is required to file, or shall cause to be filed by Bond Counsel, an IRS Form 8038-G (or, if applicable, IRS Form 8038-GC). Any such IRS Form filed with the IRS, together with a proof of filing, will be included as part of the closing transcript for each issue of Obligations, or kept in the records maintained by Bond Counsel related to the appropriate issue of Obligations. The Responsible Official shall ascertain that such form has been filed in connection with each issue of Obligations.

C. Record Retention.

1. General. Copies of all relevant documents and records sufficient to support that the tax requirements relating to all Obligations have been satisfied, including the following documents and records, should be maintained by the Authority:

- (a) Closing transcript;
 - (b) All records of investments, arbitrage reports, returns filed with the IRS and underlying documents;
 - (c) Construction contracts, purchase orders, invoices and expenditure and payment records;
 - (d) Documents relating to costs reimbursed with the proceeds of Capital Obligations;
 - (e) All contracts and arrangements involving Private Use of the property financed with Capital Obligations;
 - (f) All reports relating to the allocation of the proceeds of Obligations and Private Use of property financed with Capital Obligations;
 - (g) Itemization of property financed with the proceeds of Capital Obligations;
- and
- (h) In connection with Cash-Flow Obligations, information regarding the Authority's revenue, expenditures and available balances sufficient to support the Authority's prospective and actual maximum cumulative cash-flow deficit calculations.

2. Duration of Record Retention. All of the foregoing documents and records should be retained for the term of the Obligations, plus six (6) years.

D. Capital Obligations.

1. Timely Expenditure of Proceeds of Capital Obligations. At the time of issuance of Capital Obligations issued to fund original expenditures, the Authority must reasonably expect to spend at least 85% of all proceeds within three (3) years of the date of issuance of the Obligations. In addition, for Capital Obligations, the Authority must have incurred or expect to incur within six months after issuance original expenditures of not less than 5% of the amount of such proceeds, and must expect to complete the project financed with Capital Obligations (the “Project”) and expend the proceeds of such Capital Obligations to pay Project costs with due diligence. Satisfaction of these requirements allows the proceeds of Capital Obligations issued for the Project to be invested at an unrestricted yield for three (3) years. Failure to satisfy these requirements could subject the Authority to rebate of investment income, and other penalties. The Responsible Official will monitor the appropriate capital project accounts to ensure that the proceeds of Capital Obligations are spent within the time period(s) required under federal tax law.

Capital Obligations issued to refinance outstanding Capital Obligations are subject to separate expenditure requirements, which shall be outlined in the Tax Certificate relating to such Obligations. In connection with the issuance of any Capital Obligations issued to refinance outstanding Capital Obligations, the Responsible Official will confirm that any rebate obligation due with respect to the original issue and any subsequent refinancing thereof has been met.

2. Use of Proceeds of Capital Obligations. In general, proceeds (including investment income on original sale proceeds) of Capital Obligations, other than proceeds used to pay costs of issuance, should be spent on capital expenditures. For this purpose, capital expenditures generally mean costs to acquire, construct, or improve property (land, buildings and equipment). Capital Expenditures include design and planning costs related to the Project, and include architectural, engineering, surveying, soil testing, environmental, and other similar costs incurred in the process of acquiring, constructing, improving or adapting the property. Capital Expenditures do not include operating expenses of the Project.

3. Use of Facilities Financed with Capital Obligations. For the life of all Capital Obligations, the Project must be owned and operated by the Authority. At all times while Capital Obligations issued for a Project are outstanding, no more than 10% of the proceeds of such Capital Obligations may be used, directly or indirectly, in a trade or business carried on by a person other than a state or local governmental unit (“Private Use”). Generally, Private Use consists of any contract or other arrangement, including leases, management contracts (for example, contracts relating to the operation of a school cafeteria or to food service providers), operating agreements and guarantee contracts which provides for use of the facilities financed with Capital Obligations by a person who is not a state or local government on a basis different than the general public. The Project may be used by any person or entity, including any person or entity carrying on any trade or business, if such use constitutes “General Public Use”. General Public Use is any arrangement providing for use that is available to the general public at either no charge or on the basis of rates that are generally applicable and uniformly applied.

4. Management or Operating Agreements for Facilities Financed with Capital Obligations. Any management, operating or service contracts whereby a non-exempt entity is using facilities financed or refinanced with the proceeds of Capital Obligations must relate to portions of the Project that fit within the above-mentioned 10% allowable Private Use, or the contracts must meet the IRS safe harbor for management contracts (Rev. Proc. 97-13). Any renewals of or changes to such contracts should be reviewed by Bond Counsel. The Responsible Official shall contact Bond Counsel if there may be a lease, sale, disposition or other change in use of facilities financed or refinanced with the proceeds of Capital Obligations.

E. Cash-Flow Obligations.

1. Proper Sizing of Cash-Flow Obligations.

(a) The Authority must reasonably anticipate that it will incur an actual maximum cumulative cash-flow deficit on a date on or before the close of the six-month period commencing on the issue date of the Cash-Flow Obligations equal to at least 100% of the issue price of the Cash-Flow Obligations (taking into account the Authority's "reasonable working capital reserve" amount).¹

(b) The Responsible Official will determine the appropriate amount of Cash-Flow Obligations to issue.

(c) The Responsible Official shall determine whether or not the Authority has met its requisite maximum cumulative cash-flow deficit within six months following the date of issuance of the Cash-Flow Obligations, and shall, to the extent necessary, obtain assistance from the Arbitrage Rebate Consultant, referred to below.

F. Investment Restrictions; Arbitrage Yield Calculation; Rebate.

1. Investment Restrictions. Investment restrictions relating to the proceeds of Obligations and other moneys relating to the Obligations are set forth in the Tax Certificate. The Responsible Official will monitor the investment of the proceeds of Obligations to ensure compliance with yield restriction rules.

2. Arbitrage Yield Calculation. Investment earnings on the proceeds of Obligations should be tracked and monitored to comply with applicable yield restrictions and/or rebate requirements. The Authority is responsible for calculating (or causing the calculation of) rebate liability for each issue of Obligations, and for making any required rebate payments. Any funds of the Authority set aside or otherwise pledged or earmarked to pay debt service on the Obligations should be analyzed to assure compliance with the tax law rules on arbitrage, invested sinking funds and pledged funds (including gifts or donations linked to facilities financed with Capital Obligations). The Responsible Official will consult with Bond Counsel to confirm that all relevant arbitrage yield requirements are met.

3. Rebate. On or before the date of any required rebate payment (see below), the Authority will retain a nationally recognized arbitrage rebate consultant (the "Arbitrage Rebate Consultant") to perform rebate calculations that may be required to be made from time to time with respect to any issue of Obligations. The Responsible Official shall provide the Arbitrage Rebate Consultant with requested documents and information on a prompt basis, reviewing applicable rebate reports and other calculations and generally interacting with the Arbitrage Rebate Consultant to ensure the timely preparation of rebate reports and payment of any rebate.

The reports and calculations provided by the Arbitrage Rebate Consultant will assure compliance with rebate requirements, which require the Authority to make rebate payments, if any, no later than the fifth (5th) anniversary date and each fifth (5th) anniversary date thereafter through the final maturity or redemption date of a Capital Obligation. A final rebate payment, if due, must be made within sixty (60) days of the final maturity or redemption date of all Obligations.

Rebate spending exceptions for Capital Obligations are available for periods of 6 months, 18 months and 2 years. The Responsible Official will confer and consult with the Arbitrage Rebate Consultant to determine whether any rebate spending exception may be met.

¹ Alternatively, under the statutory safe harbor exception to rebate, at the time of issuance of Cash-Flow Obligations the Authority may reasonably anticipate that it will incur an actual maximum cumulative cash-flow deficit on a date on or before the close of the six-month period commencing on the issue date of the Cash-Flow Obligations equal to at least 90% of the issue price of the Cash-Flow Obligations.

In the case of Cash-Flow Obligations, within 60 days of the maturity date of such Cash-Flow Obligations, if there is concern as to whether the Authority has met its requisite maximum cumulative cash-flow deficit, a rebate analyst should be promptly engaged to determine whether either the six-month spending exception or the statutory safe harbor exception to the rebate rules was met (in which case no rebate would be owed) or whether the investment income derived from the proceeds of the Cash-Flow Obligations is subject, in whole or in part, to rebate.

Copies of all arbitrage rebate reports, related return filings with the IRS (*i.e.*, IRS Form 8038-T), copies of cancelled checks with respect to any rebate payments, and information statements must be retained as described above. The Responsible Official will follow the procedures set forth in the Tax Certificate that relate to compliance with the rebate requirements with respect to any Obligations.

G. Segregation of Duties, Reconciliation and Documentation Controls

1. To ensure proceeds from bond sales are used in accordance with legal requirements, invoices are submitted by the project manager and approved by the Chief Financial Officer and the General Manager for payment. In the Case of an issue of bonds the proceeds of which will be used by a governmental entity other than the Authority, the Authority may rely upon certification by such other governmental entity that it has adopted the polices described in SB 1029

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

3. Debt transactions are approved by the Board of Directors

4. Responsibility for general ledger reconciliations and records is segregated from the invoice processing, cash receipting and cash disbursement functions.

II. ADDITIONAL PROCEDURES.

A. Periodic Monitoring. The Responsible Official will conduct periodic reviews of compliance with the foregoing procedures to determine whether any violations have occurred so that such violations can be remedied through the “remedial action” regulations (Treas. Reg. Section 1.141-12) or the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance). If any changes to the terms or provisions of any Obligations are contemplated, the Responsible Official will consult with Bond Counsel, because such modifications could jeopardize the tax-exempt status of interest on the Obligations after they are modified.

B. Use of Facilities. The Responsible Official will maintain records identifying any Private Use of the facilities or portion of facilities that are financed or refinanced with proceeds of Capital Obligations. Such records may be kept in any combination of paper or electronic form. In the event the use of the proceeds of Capital Obligations of the facilities financed or refinanced with the proceeds of Capital Obligations differs from the representations or factual statements in the Tax Certificate, the Responsible Official will promptly contact and consult with Bond Counsel to ensure that there is no adverse effect on the tax-exempt status of the Capital Obligations and, where appropriate, will remedy any violations through the “remedial action” regulations (Treas. Reg. Section 1.141-12), the Voluntary Closing Agreement Program (VCAP) described in IRS Notice 2008-31 (or successor guidance), or as otherwise prescribed by Bond Counsel.

Arbitrage Yield Restrictions and Rebate Requirements

The Director of Finance will be responsible for overseeing compliance with arbitrage yield restriction and rebate requirements under federal tax regulations, as follows:

- 1) Monitor compliance with the applicable “temporary period” (as defined in the Code and Regulations) exceptions for the expenditure of bond proceeds, and provide for yield restriction on investments including “yield reduction payments” (as defined in the Code and Regulations) where applicable.
- 2) Ensure that investments acquired with bond proceeds are purchased at fair market value. In determining whether an investment is purchased at fair market value, any applicable safe harbor under the Code and Regulations may be used.
- 3) In the case of any issue of bonds for an “advanced refunding” (as defined in the Code and Regulations), coordinate with the Authority’s financial advisor and any escrow agent to arrange for the purchase of the refunding escrow securities, arrange for the computation of the yield on such escrow securities by an outside verification agent, and monitor compliance with applicable yield restrictions.
- 4) If at the time of bond issuance, based on reasonable expectations set forth in the tax certificate/agreement executed at the time of bond issuance (the “Tax Certificate”), it appears likely that the bond issue will qualify for an exemption from the rebate requirement, the Authority may defer taking any of the actions set forth in subsection (5). Not later than the time of completion of construction or acquisition of the project (or, in the case of a refunding, the redemption of the refunded bonds), and depletion of all funds from the borrowed money fund, the Authority shall make a determination if expenditure of the bond proceeds qualified for exemption from the rebate requirements based on the “small issuer” exception or spending within 6 months, 18 months or 24 months after issuance. If a rebate exemption is determined to be applicable, the Authority shall prepare and keep in the permanent records of the Bond issue a memorandum evidencing this conclusion together with records of expenditure to support such conclusion. If the transaction does not qualify for rebate exemption, the Authority will initiate the steps set forth in (5) below.
- 5) If at the time of bond issuance it appears likely that arbitrage rebate calculations will be required, or upon determination that calculations are required pursuant to (4) above, the Authority will:
 - engage the services of a Rebate Service Provider and, prior to each rebate calculation date, deliver periodic statements concerning the investment of bond proceeds to the Rebate Service Provider;
 - provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
 - monitor efforts of the Rebate Service Provider;
 - assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed;
 - during the construction period of each capital project financed in whole or in part by Bonds, monitor the investment and expenditure of bond proceeds and consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate

requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the bonds; and

- retain copies of all arbitrage reports as described under “Record Keeping Requirements.”

Review of Debt Management Policy

This policy should be reviewed periodically by the Authority and updated as needed.

MERCED IRRIGATION DISTRICT FINANCING AUTHORITY

RESOLUTION NO. 2017-01

**RESOLUTION ADOPTING MERCED IRRIGATION DISTRICT FINANCING AUTHORITY DEBT MANAGEMENT
POLICY**

WHEREAS, the Board of Directors of the Merced Irrigation District Financing Authority (the “Board” and the “Authority”, respectively) has an important responsibility to carefully account for public funds, to manage public finances wisely in order to achieve the most productive use of its resources, and to responsibly plan for the adequate funding of services provided by, and improvements to its member Districts.

WHEREAS, the Board desires to provide guidance to its staff, its members and members staff, and consultants by identifying goals, objectives and parameters for the management of the Authority’s debt levels.

WHEREAS, sound financial management practices are necessary to responsibly control the affairs of the Authority, and the establishment of a debt management policy and guidelines are necessary to provide an appropriate structure to continue the fiscal stability of the Authority, reduce financial risk while retaining flexibility, maintain competitive working relations with financial institutions, and maintain adequate contingency assets for present and future requirements.

WHEREAS, the California Legislature recently adopted legislation which requires certain entities, including the Authority, to adopt policies managing debt before it may issue new debt, and therefore in anticipation of potentially funding capital improvements of its members and consistent with the new law, staff has developed a draft Debt Management Policy (the “Policy”), which is attached hereto as Exhibit “A”, a copy of which is on file with the secretary of the Authority.

WHEREAS, the Board has reviewed and considered the draft Policy attached hereto and hereby determines it to be in the best interests of the Authority to adopt the Policy, as presented.

NOW THEREFORE, BE IT RESOLVED THAT: The facts contained in the recitals above are true and correct, and the Board so finds and determines.

BE IT FURTHER RESOLVED THAT the Board hereby adopts the Debt Management Policy attached hereto in Exhibit “A”, which Exhibit is by this reference incorporated herein, in substantially the form presented to the Board.

PASSED AND ADOPTED by the Board of Directors of the Merced Irrigation District Financing Authority this 13th day of June, 2017 by the following vote:

Ayes:	Directors:
Noes:	Directors:
Abstain:	Directors:
Absent:	Directors:

Dave Long
President
Merced Irrigation District Financing Authority

Scott Koehn
Vice President/Secretary
Merced Irrigation District Financing Authority

EXHIBIT "A"

**MERCED IRRIGATION DISTRICT FINANCING AUTHORITY
DEBT MANAGEMENT POLICY**