RESERVE POLICY
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INLAND EMPIRE UTILITIES AGENCY
RESERVE POLICY
May 2019

Policy Statement

The Inland Empire Utilities Agency (Agency or IEUA) has historically maintained fund reserves to ensure sufficient funding is available to meet its operating, capital and debt service obligations, comply with legally mandated requirements, and have the ability to respond to unforeseen events. As a regional provider of essential public services and with an extensive investment in public infrastructure, operating facilities, other related assets, the Agency must establish and maintain a prudent level of reserves to meet its commitment to deliver reliable and high-quality essential services to its customers. In addition, by maintaining prudent reserves the Agency has the necessary financial flexibility to effectively respond to economic, environmental and regulatory changes, protect its customers against reducing service levels or raising rates and fees because of temporary revenue shortfalls or unforeseen one-time expenditures, and support the Agency’s Business Goals.

Purpose of Policy

The policy directives outlined in this document are intended to ensure fund reserves support the Agency’s Business Goals adopted by the Board of Directors (Board) in December 2016, in particular its commitment to “preserve fund reserves that sustain the Agency’s long term fiscal health, high quality credit rating and ensure its ability to effectively address economic variability”. The Agency is committed to ensure its customers benefit from reliable, sustainable and high-quality water supplies and cost-effective wastewater collection, treatment, and reuse services. Given the direct impact these essential services have to public health and the overall quality of life, very few options exist, if any, for service reduction levels in the event of revenue shortfalls or other funding deficiencies. In recognition of these realities, and consistent with best practices, the Agency has prudently established reserves to ensure delivery of these essential services.

The IEUA Board may designate specific reserves and set minimum and target balances to support the various funds (programs) that account for its water, wastewater treatment, recycled water and other activities. Establishing and maintaining adequate reserves for the various programs minimizes the risk of significant fluctuation in rates and charges due to changes, such as a shortfall in revenues or unanticipated expenses.

As an issuer of revenue bonds and recipient of low interest loans, the Agency is committed to its contractual obligation to pay debt service and other financial obligations as imposed by bond covenants and loan agreements. In addition, adequate reserves directly affect the Agency’s credit rating and access to more favorable interest rate debt markets resulting in lower borrowing costs. Sustainment of high-quality credit rating will ensure the Agency’s ability to finance construction, expansion, and improvement of facilities and infrastructure to meet higher service demands from future growth. The Agency is committed to improving its long term credit to AAA and
INLAND EMPIRE UTILITIES AGENCY
RESERVE POLICY
May 2019

maintaining a debt coverage ratio that supports such rating. (Business Goal: Fiscal Responsibility).

Roles and Responsibilities

The Reserve Policy shall be adopted by the Board and reviewed periodically during the budget review process to ensure appropriate use of reserve funds and modification of targeted reserve balances for the various funds (programs). The Executive Manager of Finance and Administration /Assistant General Manager shall serve as the designated administrator of the Reserve Policy and shall be responsible for the day-to-day implementation and management.

Types of Reserves

Reserve balances shall be maintained in amounts sufficient to meet appropriate reserve levels, as established by the Board, in cash and/or cash equivalents, and permitted investments as prescribed in the Agency’s Investment Policy. The Agency classifies reserves into three major categories as follows:

- **Restricted reserves** – Funds maintained based on externally-imposed restrictions from federal and state regulatory requirements, or legal restrictions imposed by third parties, (example: bondholders) through bond indentures or other contractual agreements (example: Regional Sewage Service Contract).

  **Designated reserves** – Board imposed restrictions on funds for Agency specific purposes such as mitigating risk from the Agency’s self-insurance programs, unfunded liabilities for retirement benefits, and financing replacement and rehabilitation (R&R) of Agency assets. These funds are not legally restricted. In the event of emergency, the Board has the discretion to reassign the spending from the reserve.

- **Unrestricted reserves** – The internal policy of the Agency requires maintenance of adequate undesignated (unrestricted) reserves to finance requirements such as investment in capital and operational efficiencies and refunding of high interest debt obligations. Funds in these reserves are available for spending with no legal, regulatory, or Board imposed restrictions.

For each of the reserves, the Agency has identified a purpose, appropriate reserve levels, funding sources, conditions under which they are to be used and replenished, and review dates for determining continued need. Any reserves in excess of the cumulative target amounts will be considered undesignated funds which can be used for any lawful purpose at the discretion of the Board.
RESTRICTED RESERVES

Operating Contingency Reserve

Purpose: The Agency is committed to providing wastewater collection, treatment, disposal, optimizing beneficial use of recycled water and biosolids, and regional conservation and water use programs. The Agency strives to provide and maintain a rate structure that is affordable, stable and fully covers the fund (program) cost of service. However, unforeseen shortfalls in revenues or increases or operating costs require that the Agency periodically adjust rates and charges to achieve full cost of service recovery. This reserve is intended to minimize rate fluctuations as a result of unfavorable economic conditions or other factors beyond the control of the Agency that may result in reduced revenues or increased costs.

The Agency shall maintain an operating contingency reserve equal to a minimum of four (4) months, as mandated by legal requirements, and a target of six (6) months of total operating expenses as identified in the adopted budget for the current fiscal year. This level of reserve will provide customers and outside parties assurance that the Agency can operate for at least four months despite a significant shortfall in revenues or unplanned increase in expenses. The target level minimizes the risk of significant rate fluctuations as a result of unforeseen events.

Usage Requirements: This reserve can only be drawn upon if the Agency’s operating revenues are not sufficient to pay operating expenses. Draws from these reserves shall be replenished within twelve months after use.

Reserve Level: The Operating Contingency Reserve levels shall be maintained at a minimum of four (4) months, as mandated by legal requirements, and a target of six (6) months of the fund (program) adopted operating expenses for the current fiscal year.

Funding Source: Operating Contingency Reserve will be funded from net system revenues, (total operating revenues less total operating expenses).

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s operations and maintenance (O&M) and capital budget.

Debt Service Reserve

Purpose: As required by bond covenants and loan agreements, debt service reserves are maintained to support payment of principal and interest on outstanding obligations.

Usage Requirements: Debt service reserves will only be used to pay debt service costs when pledged net revenues (as defined in the relevant debt instruments) are insufficient to meet the principal and interest payments.
Reserve Level: The target is equal to the highest annual debt service during the life of the obligation. The minimum level will be funded to meet next fiscal year debt service requirements.

Funding Source: Includes one or combination of system revenues, property tax receipts, and/or restricted debt service accounts established as part of the original debt issuance.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s O&M and capital budget.

Connection Fees Reserve

Purpose: New users connecting to the Agency’s regional wastewater or water distribution systems and existing users that significantly increase demand on the system are required to pay a connection fee. The connection fee is intended to recoup the incremental cost of expansion or improvement to regional facilities necessary to accommodate the additional demand. The amount of connection fees collected are accounted for in accordance with the Agency’s Water Ordinance 104 adopted by the Board in June 2015 and the Regional Sewage Service Contract (Regional Contract).

Usage Requirements: Funds are restricted to support for capital expansion, improvement, and replacement and rehabilitation of physical assets, or paydown of existing debt.

Reserve Level: No minimum or target level is established for this reserve. The amount of money deposited into this reserve is dependent on the level of new connections to regional systems and the Agency’s funding requirements to support the planned capital projects.

Funding Source: Reserve is comprised of two major components:

- Water connection fees levied on new or upsized connections to the Agency’s regional water distribution system. Water connection fees are collected by the Agency and based on meter equivalent units (MEUs).
- Wastewater connection fees levied on new or upsized connections to the Agency’s regional wastewater system. Pursuant to the Regional Sewage Service (Regional Contract), wastewater connection fees are based equivalent dwelling unit (EDUs) and are collected by the contracting member agencies in their respective jurisdictions on behalf of the Agency. Contracting member agencies hold wastewater connections fees in a Capital Capacity Reimbursement Accounts (CCRA) until called by the Agency to support capital investments.

Review and Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s O&M and capital budget.
Other Reserves

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 Agency is a party. The Executive Manager of Finance and Administration/Assistant General Manager will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

DESIGNATED RESERVES

Capital Construction Reserve

**Purpose:** Capital construction reserve funds are used to finance capital investments such as construction, improvement or expansion of facilities and infrastructure, as well as acquisition of major equipment and technology. The services provided by the Agency are critical to the health and welfare of the residents within the Agency’s service area. The Agency is committed to ensure that systems are managed and constructed so that 90% of capacity is never exceeded (Business Goal; Wastewater Management Capacity).

**Usage Requirements:** Funds in this reserve will fund capital investments based on the Agency’s Ten-Year Capital Improvement Plan (TYCIP) and other long-term planning documents including but not limited to; the Asset Management Plan, Integrated Water Resources Plan (IRP), Recycled Water Plan, Wastewater Facilities Master Plan, and Energy Plan.

**Reserve Level:** The maximum target level will be reviewed annually for each program fund and will be equal to ten-year average of pay-go times three (3) fiscal years, as identified in the Ten Years Capital Improvement Plan (TYCIP). Pay-go for capital construction is CIP costs net of bond or loan proceeds.

The minimum level is equal to ten-year average of CIP pay-go costs.

**Funding Source:** Combination of system revenues generated from rates and user charges, property tax receipts, and debt proceeds issued to finance specific capital investments.

**Review Timeline:** Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s O&M and capital budget.

Replacement and Rehabilitation (R&R) Reserve

**Purpose:** Maintaining assets in an operating condition to meet the Agency’s level of service commitment to provide reliable and high-quality services requires timely and adequate investment in replacement and rehabilitation (R&R) of Agency assets. R&R is defined as an
expense which will extend, as opposed to maintain, an asset’s useful life. The basis for R&R requirements will be end of useful life and condition assessments conducted by Engineering, Maintenance and Operations and reported in Asset Management Report updated every 3 to 5 years. The Agency’s ultimate goal is finance planned R&R requirements with user rates and charges. This goal is consistent with the Regional Sewage Service Contract which requires the volumetric EDU rate to fully support operating, administration and R&R costs for the regional wastewater program.

Usage Requirements: As needed to finance unplanned R&R requirements, including R&R requirements identified in the Agency’s asset management report but scheduled in subsequent fiscal years.

Reserve Level: The maximum target level will be reviewed annually and can apply one of the following options to calculate the target reserve in reference to the program fund’s R&R costs and funding support (e.g. bond or loan proceeds):

a) Maximum target level is equal to ten-year average of R&R costs times three (3) fiscal year, or

b) Maximum target level is equal to ten-year average of R&R pay-go times three (3) fiscal years, as identified in the TYCIP. Pay-go is R&R costs net of bond or loan proceeds.

The minimum target will be the total ten-year average R&R costs.

Funding Source: System revenues generated from rates and user charges, net of operating costs and debt service costs.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s O&M and capital budget.

Self-Insurance Program Reserve

Purpose: An exposure/liability reserve shall be maintained for costs not covered by the Agency’s insurance policies, such as claim costs within the Agency’s deductibles, self-insurance retentions, and/or costs associated with disasters, and other events that are not reimbursable from insurance. The reserve shall also provide funding to mitigate various catastrophic and other events that may or may not be covered by insurance. These events may include, but are not limited to; legal settlements, terrorist attacks, natural disasters, such as earthquakes, and severe weather storms.

Additionally, the Agency has elected to self-insure for potential workers’ compensation claims. With a workforce of nearly 300, the Agency’s exposure to work-related injuries increases.

Usage Requirements: Accessed as needed for non-recoverable expenses associated with claims against the Agency. In the event of a claim in excess of policy limitations and available operating funds, the reserve will be used to satisfy that claim. In the event of a workers’
compensation claim(s) in excess of policy limitations and available operating funds, the reserve will be used to satisfy the claim and/or to pay legal expenses defending the claim.

**Reserve Level:** The minimum level will be set at $3 million and target level will be set at $6 million, including $1,000,000 maximum exposure per occurrence for workers compensation claim.

**Funding Source:** Property tax receipts allocated to the Administrative Services (GG) fund and inter-fund transfers from other funds, as needed.

**Review Date:** Reserve balances to be analyzed by Risk Management every two years to determine an appropriate funding level.

**Supplemental Water Reserve**

**Purpose:** This reserve will support investment in supplemental water purchases for purposes of increasing water use efficiency, water quality, water reliability and water sustainability in the Chino Basin (Business Goal: Water Reliability).

**Usage Requirements:** Acquisition of supplemental water to support the water reliability and water quality in the Chino Basin.

**Reserve Level:** No minimum or target levels are established for this reserve.

**Funding Source:** Combination of property tax receipts, net proceeds from the sale of supplemental water, and inter-fund loans, as needed.

**Review Timeline:** Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s O&M and capital budget.

**Sinking Fund Reserve**

**Purpose:** Sinking fund reserves are the systematic accumulation of funds set aside for a specified time frame for the specific purpose of funding major capital projects that cannot be funded by rates/fees or issuance of new debt. Reserves can be used for the design, capital acquisition, construction, equipment and process improvement costs and debt defeasance.

**Usage Requirements:** This reserve can only be drawn upon for the designated purpose for which it was established, unless otherwise approved by the Board.

**Reserve Level:** The maximum target balance in the Sinking Fund Reserves shall be determined based on the designated capital needs as approved by Agency’s Board of Directors.
Funding Source: Sinking Fund Reserve will be funded by property tax receipts and if needed, rates and charges.

Review Timeline: Reserve balances and target level will be reviewed by staff and the Board as part of the preparation and approval of the Agency’s operations and maintenance (O&M) and capital budget.

Employee Retirement Benefit Reserve

Purpose: The Agency provides postemployment pension to eligible employees who retire from the Agency. For pension benefits, the Agency contributes to a defined benefit pension plan under the California Pension Employees’ Retirement System (CalPERS).

Like most public Agencies, the Agency is facing growing unfunded accrued liabilities (UALs) for postretirement benefits. A key objective of the Agency is to develop a funding strategy to fully fund UALs over an appropriate period of time in order to safeguard retiree benefits and the Agency’s financial health.

Usage Requirements: To mitigate the impact of annual increase of the annual contribution amounts in excess of the budgeted amount

Reserve Level: This minimum level amount will be set at $6 million and increased annually up to the target level. The target level will be the highest of the minimum or Annual Required Contribution (ARC) amount budgeted in the subsequent fiscal year, based on the actuarial valuation report from CalPERS.

Funding Source: Combination of property tax receipts and indirect allocation of employment costs across all Agency funds (programs) from the Administrative Services fund.

Review Timeline: Reserve levels will be adjusted in conjunction with the annual actuarial valuation updates for pension.

Other Reserves

From time to time, the Board of Directors may deem it prudent to establish other designated reserves in order to further the mission of the Agency. The Executive Manager of Finance and Administration/Assistant General Manager will create such Reserves as directed and will establish appropriate minimum and target levels, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board’s direction with respect to any additional Designated Reserve Funds.
UNDESIGNATED RESERVES

The Undesignated Reserve includes all monies collected or generated by or on behalf of the Agency, 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.
INLAND EMPIRE UTILITIES AGENCY
DEBT MANAGEMENT POLICY
November 2016

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# INLAND EMPIRE UTILITIES AGENCY

## DEBT MANAGEMENT POLICY

November 2016

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Policy Statement

This policy documents the Inland Empire Utilities Agency (Agency) goals and guidelines for the use of debt instruments for financing Agency water and sewer infrastructure, projects, and other financing needs. The Agency recognizes the need to invest in ongoing capital replacement and rehabilitation of its facilities to ensure future viability of services.

The Agency will pay for infrastructure, projects, and other financing needs from a combination of current revenues, available reserves, and prudently issued debt. The Agency acknowledges 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 needs (i) if it meets the goals of equitable treatment of all customers, both current and future; (ii) if it is the most cost-effective means available; (iii) if it is fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (v) if there are other important policy reasons therefor. The Agency will not issue debt without the approval of the Board of Directors (Board).

To achieve the highest practical credit ratings and endorse prudent financial management, the Agency is committed to systematic capital planning, and long-term financial planning. Evidence of this commitment to long term capital planning is demonstrated through adoption and periodic adjustment of the Agency’s Ten Year Capital Improvement Plan (TYCIP) identifying the benefits, costs and method of funding each capital improvement planned for the succeeding ten years. Capital projects included in the TYCIP are typically first identified in the Agency’s long term planning documents, amongst them the Wastewater Facilities Master Plan, Asset Management Plan, Recycled Water Program Strategy, and Integrated Resources Plan.

Purpose of Policy

The purpose of this debt management policy is to:

- To establish parameters for issuing debt
- Provide guidance to decision makers:
  - With respect to options available to finance infrastructure, projects, and other financing needs,
  - So that the most prudent, equitable and cost effective method of financing can be chosen
- Promote objectivity in the decision-making process.

The Agency 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 law which govern the eligibility of the debt for tax-exempt status
- The federal and state law which govern the issuance of taxable debt
- The federal and state laws which govern disclosure, sale, and trading of the debt both before and subsequent to issuance
Purpose and Use of Debt

The Agency will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term improvements and thus ensure that existing and future users pay their fair share. Long-term improvements include the acquisition of land, facilities, infrastructure, and supplies of water; and enhancements or expansions to existing water and sewer capacity and facilities. Debt can be issued to fund the planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment and other costs as permitted by law. The Agency will not issue debt to cover operating needs, unless specifically approved by the Board.

The Agency may issue short term financing to finance certain essential equipment and vehicles. These assets range from service vehicles to laboratory equipment. The underlying asset must have a minimum useful life of one year or more. Short-term financings, including loans, on bill financing and capital lease purchase agreements, are executed to meet such needs.

The CFO/AGM will periodically evaluate the Agency’s existing debt and execute re-financings or prepayment (refunding) when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations, such as commercial paper or loans.

All debt issuance or refunding proposals made by the Agency involving a pledge or other extension of the Agency’s credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the Agency’s credit shall be reviewed by the CFO/AGM. The CFO/AGM shall be responsible for analyzing the debt financing proposal to determine if it is beneficial to the Agency and complies with the Agency’s long-term financial planning objectives, including maintaining or improving the current credit ratings assigned to outstanding debt by the major credit rating agencies.

The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized. Debt may only be issued under Board authorization and when the Agency has appropriated sufficient funds to pay the obligation of principal and interest. No debt shall be issued with a maturity date greater than the expected weighted average useful life of the facilities or improvements being financed. The final maturity of bond or State Revolving Fund (SRF) loan debt shall be limited to 30 years after the date of issuance.
Debt Management

There are no specific provisions within the California Government Code that limit the amount of debt that can be issued by the Agency. The Agency will provide for a periodic review of its financial performance and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting, and rate setting process. Necessary appropriations for annual debt service requirements will be routinely included in the Agency’s budget. The Agency will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible interest rates.

The Agency’s Debt Management Policy, Reserve Policy and Investment Policy are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such, the following principles outline the Agency’s approach to debt management:

- The Agency will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with existing debt service covered by such existing revenues, or (ii) additional revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

- The Agency will not issue debt to cover operating needs, unless specifically approved by the Board.

- Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future users. Borrowings by the Agency will be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 20-30 years.

- The Agency currently issues debt instruments on a fixed and variable interest rate basis. Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment. When appropriate, the Agency may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.

The proceeds of the bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The Agency’s Investment Policy and the specific bond indentures govern objectives and criteria for investment of bond proceeds. The CFO/AGM will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.
Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not commingled with other forms of Agency cash. The Agency’s trustee will administer the disbursement of bond proceeds pursuant to that certain Indenture of Trust. Requisition for the disbursement of bonds funds will be approved by the Agency’s General Manager or CFO/AGM.

The CFO/AGM will monitor dedicated debt reserve fund balances and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a refunding must outweigh the cost of reissuing new debt. A potential refunding will be assessed in combination with any new capital projects requiring financing, and the benefits of the refunding will be evaluated in relation to its costs and risks.

Debt can be refunded to achieve one or more of the following objectives:

- Reduce future interest costs; Restructure or reduce future debt service in response to evolving conditions regarding anticipated revenue sources and lower market interest rates; and
- Restructure the legal requirements, termed covenants of the original issue to reflect more closely the changing conditions of the Agency or the type of debt.

**Debt Coverage Target**

The Agency will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in acceptable debt ratios. In determining the affordability of proposed revenue bonds, the Agency will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance (O&M expense) to estimated annual debt service and estimated debt coverage ratio (DCR). DCR is the amount of cash flow available to meet annual interest and principal payment on debt.

The Agency’s bond covenants require a legal DCR of at least 120% for senior bonds and a coverage ratio of at least 125% for senior and subordinate debt combined. As appropriate and as needed, the Agency will require a rate increase to cover both O&M and debt service costs, and create debt service reserve funds to maintain the legally required DCR. The Agency’s objective is to maintain a DCR above the legally required minimum that sustains a high quality credit rating.

**Debt Instrument Rating**

The CFO/AGM, with advice from a financial advisor as appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the Board. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.
Debt Structuring

The Agency will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. “Backloading” of debt service will be considered only when such structuring is beneficial to the Agency’s aggregate overall debt payment schedule.

A call option will be used unless there is a compelling reason not to do so. A call option, or optional redemption provision, gives the Agency the right to prepay or retire debt prior to its stated maturity. This option may permit the Agency to achieve interest savings in the future through refunding of the bonds. Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors, such as the call premium, time until the bonds may be called at a premium or at par, and interest rate volatility. Generally, 30-year tax exempt municipal borrowings are structured with a 10-year call at no premium. From time to time, shorter call options (5-9 years) may be used at little or no premium.

Types of Debt

The Agency may issue debt, including but not limited to revenue bonds, variable rate bonds, state revolving fund (SRF) loans, bank loans, notes, commercial paper, direct placements, capital leases, lease-purchase financing, securitization and on bill financing. The weighted average useful life of the asset(s) or project shall exceed the payout schedule of any debt the Agency assumes. A definition on each type of debt is provided in Appendix A.

In addition to the aforementioned long and short term financing instruments, the Agency may also consider joint arrangements with other governmental agencies. Communication and coordination will be made with local governments regarding cost sharing in potential joint projects, including leveraging grants and funding sources.

The Agency is authorized to join with other special districts and/or municipal agencies to create a separate entity, such as a Joint Powers Authority (JPA), to issue debt on behalf of the Agency, the special district or municipality. The Agency will only be liable for its share of debt service, as specified in a contract executed in connection with the joint venture debt.

Credit Enhancement

Credit enhancement may be used to improve or establish a credit rating on an Agency debt obligation. Types of credit enhancement include Letters of Credit, bond insurance or surety policies. The CFO/AGM will recommend to the Board the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the GM and/or CFO/AGM, the use of such credit enhancement furthers the Agency’s overall financial objectives.
Debt Service Reserve Fund/Surety Policy

The CFO/AGM, with counsel from the Agency’s financial advisor, bond counsel, and underwriter, will determine whether it is prudent and cost-effective to fund a debt service reserve fund. The Agency may issue debt without a funded debt service reserve surety if market pricing will not be negatively impacted. Debt reserves will be maintained in accordance with the Agency’s Reserve Policy.

Capitalized Interest

Generally, interest may be capitalized for the construction period of a revenue-producing project, such that debt service expense does not begin until the project is expected to be operational and producing revenues. In addition, for lease back arrangements, such as those used for lease revenue bond transactions, interest may be capitalized for the construction period, until the asset is operational. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period. Capitalized interest is sometimes referred to as “funded interest.”

Credit Ratings

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

The Agency recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the Agency’s debt rating on outstanding debt.

Rating Agency Relationships

The Agency shall be responsible for maintaining relationships with the rating agencies: Standard & Poor’s, Moody’s Investors Service, and Fitch Investors Service, as appropriate. This effort shall include providing periodic updates, both formal and informal, on the Agency’s general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance as appropriate. Written disclosure documents to the rating agencies shall be provided by the Finance and Accounting Department.

The retention of a rating agency relationship will be based on a determination of the potential for more favorable interest costs as compared to the direct and indirect cost of maintaining that relationship.
INLAND EMPIRE UTILITIES AGENCY
DEBT MANAGEMENT POLICY
November 2016

Bond Ratings

The CFO/AGM in consultation with the Agency’s financial advisor, shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

Method of Sale

The Agency will select the method of sale that best fits the type of bonds 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:

I. Competitive sale. Bonds will be marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on the best bid for the Agency’s securities, (highest price/lowest yield) The Agency will award the sale of the competitively sold bonds on a true interest cost (TIC) basis. Pursuant to this policy, the GM and/or CFO/AGM is hereby authorized to sign the bid form on behalf of the Agency fixing the interest rates on bonds sold on a competitive basis.

II. Negotiated sale. The CFO/AGM selects the underwriter, or team of underwriters, of its securities in advance of the bond sale. The CFO/AGM works with the underwriter to bring the issue to market and negotiates all rates and terms of the sale. In advance of the sale, the GM and/or CFO/AGM will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale will be conducted. Pursuant to this policy, the GM and/or CFO/AGM is hereby authorized to sign the bond purchase agreement on behalf of the Agency fixing the interest rates on bonds sold on a negotiated basis.

III. Private placement. The Agency may elect to issue debt on a private placement bases. 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 of it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

Roles and Responsibility

The primary responsibility for developing debt financing recommendations rests with the CFO/AGM. In developing such recommendations, the CFO/AGM shall consider the need for debt financing and assess progress on the current capital improvement program or plan (CIP) and any other program/improvement deemed necessary by the Agency. The Board authorizes and approves debt financing and/or debt service related recommendations and proposals.
All proposed debt financings shall be presented to the Board through the Finance, Legal, and Administrative Committee and approved by the Board. New bond issues will be issued through the Chino Basin Regional Financing Authority (CBRFA) pursuant to a corresponding Installment Purchase Agreement between the CBRFA and the Agency. The Installment Purchase Agreement, amongst other things, provides for the Agency’s pledge of designated revenues, the setting of rates and charges sufficient to meet the debt obligations and the payment of debt obligations.

Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State of California Government Code (CGC) §54300 et seq.

**Bond Counsel**

The Agency will retain external bond counsel for all debt issues. As part of the responsibility to oversee and coordinate the marketing of all Agency indebtedness, the CFO/AGM shall make recommendations for approval by the Board on the retention of bond counsel.

Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the Agency will include a written opinion by bond counsel affirming that the Agency is authorized to issue the debt, stating that the Agency has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

**Financial Advisors**

The Agency will select financial advisors who may either be independent financial advisors or firms who engage in municipal bond underwriting or brokerage services. While serving as the Agency’s financial advisor, a firm may not also engage in the underwriting of the Agency bond issue for which that firm acts as financial advisor. A firm may also not switch roles (i.e., from financial advisor to underwriter) after a financial transaction has begun. Financial advisors shall be selected through a competitive process after a review of proposals by the CFO/AGM and/or other staff.

During the contract term of any party acting as financial advisor, neither the firm nor any individual employed by that firm will perform financial advisory, investment banking or similar services for any entity other than the Agency in transactions involving an Agency financial commitment without the specific direction of the Agency’s CFO/AGM.

The financial advisor will advise the Agency on refunding opportunities for current outstanding debt, as well as assist in evaluating the merits of competitive, negotiated or private placement of new debt, and determining the most appropriate structure to ensure effective pricing that meets the Agency’s near-term and long term cash flow needs. The financial advisor will work with all parties involved in the financing transaction, including the Agency’s bond counsel, trustee, underwriters, and credit liquidity providers, to develop and monitor the financing schedule and preparation of
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the Official Statement. The financial advisor will assist the Agency in developing and distributing bid specifications for desired services as, trustee and paying agents, printing, remarketing and credit liquidity service providers, and assist the Agency in its review process. The Agency also expects that its financial advisor will provide objective advice and analysis, maintain confidentiality of the Agency’s financial plans, and be free from any conflict of interest.

Underwriters

For negotiated sales, the Agency will generally select or pre-qualify underwriters through a competitive process. This process may include a request for proposal or qualifications to all firms considered appropriate for the underwriting of a particular issue or type of bonds. The CFO/AGM will determine the appropriate method to evaluate the underwriter submittals and then select or qualify firms on that basis. The Agency will not be bound by the terms and conditions of any underwriting agreement; oral or written, to which it was not a party.

Federal Arbitrage and Rebate Compliance

The Agency will fully comply with federal arbitrage and rebate regulations. Concurrent with this policy, the CFO/AGM will take all permitted steps to minimize any rebate liability through proactive management in the structuring and oversight of its individual debt issues. All of the Agency’s tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations.

The Department of Financial Planning shall be responsible for the following:

I. Monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the Agency shall meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be reasonably expected that 85% of the proceeds will be expended within the three-year temporary period.

II. Monitoring the investment of bond proceeds with awareness of rules pertaining to yield restrictions. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.

III. Contracting the services of outside arbitrage consultants to establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.

To the extent any arbitrage rebate liability exists, the Agency will report such liability in its annual Comprehensive Annual Financial Report CAFR).
Continuing Disclosure

The Agency will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the Securities Exchange Commission (SEC) Rule 15c2-12 and consistent with the Agency’s Disclosure Procedures Policy. The GM or CFO/AGM shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board’s (MSRB’s) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The Agency will provide financial information and operating data no later than 270 days following the end of the Agency’s fiscal year each year, and will provide notice of certain enumerated events with respect to the bonds, if material, as defined in the Agency’s bond covenants.

The Agency will keep current with any changes in both the administrative aspects of its filing requirements and the national repositories responsible for ensuring issuer compliance with the continuing disclosure regulations. In the event a ‘material event’ occurs requiring immediate disclosure, the Agency will ensure information flows to the appropriate disclosure notification parties.

Compliance with Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the Agency is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- 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 bond covenants

On an annual basis, the Finance and Accounting Department will prepare all required debt related schedules and footnotes for inclusion in the Agency’s CAFR. The CAFR shall describe in detail all funds and fund balances established as part of any direct debt financing of the Agency.

The CAFR may also contain a report detailing any material or rate covenants contained in any direct offering of the Agency and whether or not such covenants have been satisfied.
Policy Review

On an as needed basis, the CFO/AGM will be responsible for updating and revising this Policy which shall be reviewed by the Finance, Legal, and Administrative Committee and adopted by the Board.
APPENDIX “A”

Definitions of Types of Debt

Bank Loans and Notes

Use of short-term borrowing, such as bank loans and notes, will be undertaken only if available cash or reserves are insufficient to meet both project needs and current obligations.

Capital Lease

Capital lease debt may be considered to finance capital improvements, including vehicles and equipment with an expected useful life of less than ten years. A capital lease is a lease in which the lessor finances the lease and all other rights of ownership transfer to the Agency.

Derivatives

The Agency may choose to enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The Agency will consider the use of derivative products on a case-by-case basis and consistent with state statute and financial prudence. Before entering into such contracts or agreements, the Agency will review the risks and benefits of such financing techniques and expected impacts on the Agency’s long-term financial operations and credit ratings, and prepare a report to be presented to the Board of Directors through the Finance, Legal and Administration Committee for approval.

Lease-Purchase Financing

The use of lease-purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option. The lifetime cost of a lease typically will be higher than other financing options or pay-go purchases. Nevertheless, lease-purchase agreements may be used by the Agency as funding options for capital acquisitions if operational or cash-flow considerations preclude the use of other financing techniques.
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On Bill Financing

The Agency may choose to enter into low or zero interest financing agreements with utility providers who offer On Bill Financing. This type of financing offers financing of business improvements with little to no stated interest or fees or costs to the Agency. Repayment amounts will be based on projected savings associated with the project and will be part of the monthly bill received from the issuer. Financing terms can range from three to ten years depending on the project to be financed.

Revenue Bonds

Revenue bonds issued by the Agency are long term obligations issued to fund capital projects. The Agency will generally issue revenue bonds on a fixed interest rate basis, wherein at the time of the bond sale all interest rates are known and do not change while those bonds are outstanding. Particular conditions may arise where the Agency would consider the use of variable interest rate bonds. Variable interest rate bonds have interest rates that reset on a periodic basis (e.g. daily, weekly, monthly, etc.). Revenue bonds are payable solely from Agency revenues in accordance with the agreed upon bond covenants.

Variable Rate Debt

Variable rate debt is an alternative to fixed rate debt. It may be appropriate to issue short-term or long-term variable rate debt to diversify the Agency’s debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. Variable rate debt typically has a lower cost of borrowing than fixed rate financing and shorter effective lives in the range of 7 to 35 days. The Agency may consider variable rate debt in certain instances. The Agency will maintain a conservative level of outstanding variable debt in consideration of general rating agency guidelines and limits outstanding variable rate debt to a maximum of 30% of total outstanding debt, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream. Under no circumstances will the Agency issue variable rate debt solely for the purpose of earning arbitrage.

Short Term Debt

Pending the issuance of bonds the Board may authorize the issue of short term debt. Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues, where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates. The CFO/AGM will determine and utilize the least costly method for short-term borrowing. Such debt shall be authorized by resolution of the Board.
These short term notes may be structured as:

- **Bond Anticipation Notes (BANs)** - BANs are short term obligations that will be repaid by proceeds of a subsequent long-term bond issue. The Agency may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, financing for such notes must be planned for and determined to be feasible by the GM and CFO/AGM.

- **Commercial Paper (CP)** - CP is a note that has maturities up to 270 days and may be rolled to a subsequent maturity date. Tax Exempt Commercial Paper may be issued for Agency capital programs if a program size and efficiency can be put in place.

- **Tax and Revenue Anticipation Notes (TRANs)** - TRANs are short term notes secured by a pledge of taxes and other revenues in the current fiscal year. TRANs, if issued, will constitute direct obligations of the Agency backed by the full faith and credit of the Agency. All TRANs will be redeemed in the same fiscal year in which they are issued. The Agency may choose to issue Tax Revenue Anticipation Notes to fund internal working capital cash flow needs, if such notes are judged by the GM and CFO/AGM to be prudent and advantageous to the Agency.

### State Revolving Funds

The State Revolving Fund (SRF) loan program is a low or zero interest loan program for the construction of wastewater treatment and sewage collection systems, water recycling facilities, storm water projects, implementation of nonpoint source and storm drainage pollution control management programs, and for the development and implementation of estuary conservation and management programs. SRF debt service payments are factored into debt service coverage ratios as defined by applicable water and wastewater indentures.

SRF loans are generally structured such that the Agency is required to contribute a percentage of the total project cost and receives loan proceeds from the State for the balance. In general, the SRF loan interest rate is calculated by taking half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds sale. The term of the loans can be 20 or, if applicable, an extended financing term of 30 years. When compared to traditional bond financing, the Agency may realize substantial savings as a result of the lower interest rate.

SRF Loans may provide additional assistance in the form of principal forgiveness. Principal forgiveness must be specified at the execution of the loan agreement for the amount forgiven to be counted against the total loan required to be provided by the SRF.

### Letters of Credit

The Agency shall have the authority to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous. Only those financial institutions with short-term
credit ratings of at least VMIG 1/A-1, F1 by Moody’s Investor Services, Standard & Poor’s and Fitch IBCA, may participate in the Agency’s letter of credit agreements.
FY 2016/17
INVESTMENT POLICY

6075 Kimball Avenue
Chino, CA 91708
Phone: (909) 993-1600

Website: www.ieua.org
# FY 2016/17 INVESTMENT POLICY

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1.0 POLICY

WHEREAS; The Legislature of the State of California has declared that the deposit and investment of public funds by local officials and local agencies is an issue of statewide concern (California Government Code (CGC) § 53600.6 and 53630.1 (CGC §53600.6 and §53630.1);

WHEREAS; the legislative body of a local agency may invest surplus monies, not required for the immediate necessities of the local agency, in accordance with the provisions of CGC §5922 and CGC §53601 et seq.; and

WHEREAS; the Chief Financial Officer/Assistant General Manager (CFO/AGM) or the General Manager (GM) of the Inland Empire Utilities Agency (IEUA) shall annually, or whenever there are recommended changes, whichever occurs first, prepare and submit a statement of investment policy and such policy, and any changes thereto, shall be considered by the legislative body at a public meeting (CGC §53646[a]).

NOW, THEREFORE, BE IT RESOLVED that the policy of IEUA is to invest funds in a manner which will provide: (i) the maximum security; (ii) the funds necessary to meet the daily cash flow demands of the IEUA; and (iii) the highest investment return while conforming to all statutes governing the investment of IEUA funds within the constraints of this Investment Policy.

2.0 SCOPE

This Investment Policy applies to all surplus monies of IEUA, as defined below.

Surplus Monies are defined, for the purpose of this Investment Policy, as all funds of the IEUA except:

- Monies held in Deferred Compensation Accounts
- Monies held in Capital Capacity Reimbursement Accounts

Pooling of funds

Except for cash in certain restricted and special funds, IEUA will consolidate cash and reserve balances from all funds to maximize investments earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.
3.0 PRUDENCE

The standard of prudence to be used by designated investment signatories shall be the "prudent investor" standard (CGC §53600.3) and shall be applied in the context of managing an overall portfolio. Investments shall be made 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 IEUA, 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. Designated investment signatories, acting in accordance with written procedures, this investment policy, and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

4.0 OBJECTIVES

As specified in CGC §53600.5, when investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds; the primary objectives, in priority order, of the investment activities shall be:

A. Safety: Safety of principal is the foremost objective of the investment program. Investments made by IEUA shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, diversification is required to prevent any potential loss on any individual security or depository from exceeding the income generated from the remainder of the portfolio.

B. Liquidity: The investment portfolio will remain sufficiently liquid to enable IEUA to meet all operating requirements which might be reasonably anticipated.

C. Return on Investments (Yield): The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and the cash flow characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1. A security with declining credit may be sold to minimize loss of principal.
2. A security swap would improve quality, yield, or target duration in the portfolio.
3. Liquidity needs of the portfolio that requires the security to be sold.
5.0 **DELEGATION OF AUTHORITY**

Authority to manage the investment program is derived from CGC §53600, et seq. Management’s responsibility for the investment program is hereby delegated for a one-year period by the legislative body, to the Chief Financial Officer/Assistant General Manager (CFO/AGM) or the General Manager (GM) who shall thereafter assume full responsibility for those transactions until the delegation of authority is revoked by the Board of Directors. The CFO/AGM or the GM shall establish written procedures for the operation of the investment program consistent with this investment policy. Procedures should include reference to: safekeeping, wire transfer agreements, collateral/depository agreements and banking services contracts, as appropriate. Such procedures shall include explicit delegation of authority to persons/positions responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the CFO/AGM or the GM and Administration. The CFO/AGM or GM shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinates.

The GM and/or CFO/AGM may engage the services of one or more external investment advisor to assist in the management of the Agency’s investment portfolio in a manner consistent with this policy and the Agency’s investment objectives. Such external advisors may be granted discretion to purchase and sell investment securities in accordance with this Investment Policy. Such investment advisors must be registered under the Investment Advisers Act of 1940.

6.0 **ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the placement of investments shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

7.0 **AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS**

The CFO/AGM or the GM shall maintain a list of approved and authorized financial institutions and brokers/dealers, selected on the basis of credit-worthiness, financial strength, experience, and capitalization.

In selecting the financial institutions for the deposit or investment of IEUA funds, the CFO/AGM or the GM’s consideration shall include the depository’s latest equity/asset ratio data and continue to monitor the financial institutions’ credit characteristics and financial history throughout the period during which IEUA funds are deposited or invested.

The minimum qualifications for Agency approved depository/financial institutions include: (i) that they must be at least three (3) years old; have total assets in excess of ten ($10) billion dollars; a core capital/asset ratio of 5 percent or better; or (ii) have total assets in excess of five hundred million dollars ($500,000,000); and a core capital/asset ratio of 6 percent or better.
For the services of banks, savings banks, and savings and loan associations, depository agreements shall be prepared by the CFO/AGM or the GM and authorized representatives of the respective financial institutions for consideration and execution by the Board of Directors.

For broker/dealer services utilized to invest in government securities and other investments, the CFO/AGM or the GM is designated to select only brokers/dealers who are licensed and in good standing with the California Department of Securities (CDS), the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), or other applicable self-regulatory organizations. A periodic review of authorized brokers/dealers is essential to serve the IEUA’s investment needs.

In order to improve quality services, expertise, and credit worthiness, the CFO/AGM or the GM may, on a selective basis, revise the approved list of brokers/dealers to update qualified brokers/dealers under the requirements of this Investment Policy.

The CFO/AGM or the GM shall maintain a list of approved brokers/dealers and submit the list to the Board of Directors as part of the periodic Investment Policy review process, or more frequently as requested by the Board.

Financial institutions/depositories, brokers/dealers and external investment managers, who do investment-related business with IEUA shall sign a Certificate of Understanding (see Attachment "A"). The Certification of Understanding states that the entity:

A. Has read and is familiar with the IEUA’s Investment Policy as well as applicable Federal and State law;
B. Agrees to notify IEUA in writing of any potential conflicts of interest;
C. Meets the requirements as outlined in this Policy;
D. Agrees to make every reasonable effort to protect the assets of IEUA from loss.

Annually, banks, savings bank, savings and loans associations, and authorized brokers/dealers will be requested to update information about their financial institutions. The required information will be supplied by responses to the attached questionnaires (see Attachment "B" for broker/dealers and Attachment “C” for banks and savings and loans), and provide IEUA with copies of published financial statements.

8.0 AUTHORIZED AND SUITABLE INVESTMENTS

IEUA’s investments are governed by Government Code. Within the investments permitted by the Government Code, IEUA seeks to further restrict eligible investments to the investments listed below. In the event an apparent discrepancy is found between this Investment policy and the Government Code, the more restrictive parameters will take precedence. Percentage holding limits listed in this section apply at the date an investment is purchased. Credit ratings, as shown, specify the minimum credit rating category required at the point of purchase without regard to specific modifiers, such as +/- or 1, 2, 3.
A. United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

B. Federal agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.

C. U.S. Instrumentalities (Supranational). United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank, with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Purchases are limited to securities that have a long-term debt rating of at least “AA”, or its equivalent, by a Nationally Recognized Statistical Rating Organization (NRSRO). A maximum of ten percent of the portfolio may be invested in United States Instrumentalities.

D. State Municipal Securities – Registered treasury notes or bonds issued by any of the 50 United States, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by a state or by a department, board, agency, or authority of any of the 50 states. Securities eligible for investment under this paragraph shall be rated at least “A” by a Nationally Recognized Statistical Rating Organization (NRSRO). Short-term municipal securities eligible for investment shall be rated at or above the following credit agencies investment grade ratings; Sp-1 by Standard & Poor’s, F-1 by Fitch, and MIG-1 by Moody’s. These ratings for short term municipal securities signify the issuer’s strong capacity to pay principal and interest. Not more than 10 percent of IEUA’s funds shall be invested in state and local municipal securities.

E. California Local Agency Municipal Securities – Bonds, notes, warrants or other evidence of indebtedness of a local agency or municipality located within the State of California, including debt securities issued by the IEUA. Securities eligible for investment under this paragraph shall be rated at least “A” by a NRSRO.

F. Bank deposits, including demand deposit accounts, savings account, and market rate accounts, time deposits, and certificates of deposit in financial institutions located in California. Bank deposits are required to be collateralized as specified under Government Code § 53630 et. seq. Agreements allowing for the waiver of the collateral requirement for that amount of deposit covered by the Federal Deposit Insurance Corporation may be implemented provided the remainder of the deposit is secured by collateral as required by the Government Code.
G. Negotiable Certificates of Deposit. Negotiable certificates of deposit (NCDs) issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank. A minimum Industry Standard Definition (IDC) rating of 165 (Excellent) is required. All purchases shall not exceed the FDIC Insured Limit. The current FDIC Negotiable CD insured limit is $250,000 (principal and interest). A maximum of 30 percent of the portfolio may be invested in this category Negotiable Certificates of Deposit. The maximum investment maturity will be restricted to five years.

H. Placement Service Deposits (PSD). Funds may be placed with a private sector entity that assists in the placement of deposit with eligible financial institutions located in the United States (CGC § 53601.8). The full amount of the principal and the interest that may be accrued during the maximum term of each PSD shall at all times be insured by federal deposit insurance. The maximum portfolio exposure to Placement Service Deposits is limited to 30 percent. The maximum investment maturity will be restricted to five years.

I. Commercial paper of "prime" quality of the highest ranking or of the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either paragraph (1) or paragraph (2):

1. The entity meets the following criteria:
   a. Is organized and operating in the United States as a general corporation;
   b. Has total assets in excess of five hundred million dollars ($500,000,000);
   c. Has debt other than commercial paper, if any, that is rated "A" or higher by a NRSRO.

2. The entity meets the following criteria:
   a. Is organized within the United States as a special purpose corporation, trust, or limited liability company;
   b. Has program wide credit enhancements including, but not limited to, over collateralization, letters of credit, or surety bond;
   c. Has commercial paper that is rated "A-1" or higher, or the equivalent, by a NRSRO.

Eligible commercial paper shall have a maximum maturity of 270 days or less. Local agencies, other than counties or a city county, may invest no more than 25 percent of their moneys in eligible commercial paper. Local agencies, other than counties or a city and county may purchase no more than 10 percent of the outstanding commercial paper of any single issuer.
J. Local Agency Investment Fund (LAIF) investment pool is a voluntary program created by statute as an investment alternative for California’s local governments and special districts and is under the administration of the State Governor of California. All securities purchased by LAIF are under the authority of Government Code § 16429 and 16480.4. As part of the Pooled Money Investment Account (PMIA), LAIF has oversight by the Pooled Money Investment Board (PMIB), and an in-house Investment Committee. LAIF also has oversight by the Local Agency Investment Advisory Board and is audited by the Bureau of State Audits on an annual basis.

Investment in California LAIF cannot exceed the maximum deposit per agency limit as set by the Local Agency Investment Fund.

K. Local Government Investment Pools (LGIP). Shares of beneficial interest issued by a joint powers authority organized pursuant to Government Code § 6509.7. To be eligible for purchase, the pool must meet the requirements of CGC § 53601(p). Total purchases shall not exceed $20 million per account of surplus funds.

Whenever the IEUA has any funds invested in a LGIP, the CFO/AGM or the GM shall maintain on file a copy of the pools’ current information statement to be reviewed on a periodic basis.

L. Money Market Funds - Investing solely in U.S. treasury securities and U.S. Government Agency securities, and repurchase agreements relating to the above obligations. To be eligible, these Money Market Funds must have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs. (B) Retained an investment advisor with not less than five years’ experience and registered or exempt from registration with the SEC, with assets under management in excess of five hundred million dollars ($500,000,000). No more than 20 percent of the portfolio may be invested in Money Market Funds and with no more than 10 percent invested in any one money market mutual fund.

M. Repurchase Agreements - IEUA may invest in repurchase agreements with banks and dealers with which IEUA has entered into a master repurchase agreement which specifies terms and conditions of repurchase agreements.

1) Transactions shall be limited to the primary dealers and banking institutions rated “A” or better by a NRSRO, or with a financially stable banking institution which the Agency has substantial banking relationship. The maturity of repurchase agreements shall not exceed 90 days. The market value of securities used as collateral for repurchase agreements shall be monitored daily by the CFO/AGM or GM and will not be allowed to fall below 102 percent of the value of the repurchase agreement plus the value of collateral in excess of the value of the repurchase agreement.
In order to conform with the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest by the United States or any agency of the United States.

2) Not more than 40 percent of the portfolio may be invested in repurchase agreements and a security interest satisfactory to IEUA shall always be maintained in the securities subject to a repurchase agreement.

N. Medium Term Notes (MTN): MTNs defined as all corporate and depository institution debt securities with a maximum remaining 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. Purchases in this category shall not exceed 10 percent of the portfolio and must be rated “A” or better by a NRSRO.

**Ineligible Investments:** Investments not described herein, including but not limited to, reverse repurchase agreements and common stocks are prohibited from use in this portfolio. This Investment Policy further specifically disallows investments in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or any security that could result in zero interest accrual if held to maturity.

9.0 **AUTHORIZED INVESTMENTS FOR BOND FUNDS**

Bond funds shall be invested in the securities permitted pursuant to Board approved bond documents. If the bond documents are silent as to the permitted investments, bond funds will be invested in the securities permitted by this policy. Notwithstanding the other provisions of this Investment Policy, the dollar portfolio, percentage, and term limitations listed elsewhere in the Investment Policy do not apply to bond funds. In addition to the securities listed in Section 8.0 above, bond funds may be invested in a structured investment product if approved by the CFO/AGM or GM.

10.0 **SAFEKEEPING AND CUSTODY**

As required by CGC §53601 all security transactions entered into by IEUA shall be conducted on Deliver versus Payment basis. Delivery versus Payment or DVP basis means all securities purchased or acquired shall be delivered to IEUA by book entry, physical delivery, or third party custodial agreement. Investments in the state pool, local government investment pools, or money market funds are undeliverable, and therefore, not subject to the delivery or third party safe keeping requirements.
The Board of Directors recognize that investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to minimize these risks. Investment signatories are expected to display prudence in the selection and/or approval of securities, as a way to minimize the risks present in the investment portfolio. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. Further, financial institutions which hold funds, deposited as investments, shall be subject to an investment limitation.

The Board of Directors acknowledges that from time to time certain situations may arise during which strict adherence to an inflexible investment policy may be overly restrictive. On a case by case basis, the Board of Directors may consider any pertinent information of such situations and may, by minute action, modify or waive, within the constraints of CGC §53601 et seq., any of the provisions and/or restrictions of this Investment Policy.

The CFO/AGM or the GM shall periodically establish diversification guidelines, within the context of this policy, and strategies to control any risks of default, market price changes, and illiquidity.

12.0 TRADING OF SECURITIES

A trade is the movement from one security to another and may be done for a variety of reasons, such as to increase yield, lengthen or shorten maturities, to take a profit, or to increase investment quality. The purchase and sale transaction and the sale transaction must each be recorded separately and any losses or gains on the sale must be recorded.

The CFO/AGM or the GM may obtain competitive bids from at least two brokers or financial institutions on all purchases based on investment analysis recommended by staff in reference to the investment policy guidelines. Competitive bids can be also obtained by other communication channels when necessary.

13.0 MAXIMUM MATURITIES

Where no maturity limit is stated for an investment under Section 8.0, no investment shall be made in any security that at the time of the investment, has a term remaining to maturity in excess of five years unless the Board of Directors has granted express authority to make that investment either specifically or as part of a previous investment program no less than three (3) months prior to the investment. Any investment currently held at the time the investment policy is adopted which does not meet the new policy guidelines will be held until maturity, and shall be exempt from the current policy. At the time of the investment’s maturity or liquidation such funds shall be reinvested only as provided in the most current policy.

14.0 PORTFOLIO DURATION LIMITATION

The weighted average duration of the entire portfolio shall not exceed three (3) years.
15.0 MONITORING CREDIT RATINGS

The CFO/AGM or the GM shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Board of Directors in writing within 24 hours of knowledge of the event. If an existing investment’s rating drops below the minimum allowed for new investments made pursuant to this policy, the CFO/AGM or the GM shall also make a written recommendation to the Board as to whether this security should be held or sold prior to maturity.

16.0 REPORTING

The CFO/AGM or the GM shall submit to each member of the Board of Directors a monthly investment report. This report will include the elements of the quarterly report as recommended by CGC §53646, to include:

a. Type of investment
b. Name of institution
c. Date of maturity
d. Amount of deposit or cost of the security and the par value
e. Current market value of all securities
f. Rate of interest/earnings (yield)
g. A monthly list of transactions

CGC §53646(b)(2),(3) recommends that the investment report must include a statement that (i) all investment actions executed since the last investment report have been made in full compliance with the Investment Policy or a Board of Directors' minute action (wavier) and, that (ii) IEUA will meet its expenditure obligations for the next six months. The CFO/AGM or the GM shall maintain a complete and timely record of all investment transactions in support of the above statement.

17.0 INTERNAL CONTROLS

The CFO/AGM or the GM is responsible for establishing and maintaining a control structure designed to ensure that the assets of the IEUA are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation and benefits require estimates and judgments by management.

An annual independent review, or as needed to address recommended changes, by an external auditor to assure compliance with policies and procedures will be performed as part of the IEUA’s annual audit.
18.0 PERFORMANCE STANDARDS

The investment portfolio shall be designed with the objective of obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow needs. In order to determine whether market yields are being achieved, the CFO/AGM or the GM shall identify comparable benchmarks to the portfolio investment duration, (e.g. 90-day US Treasury Bill, 6-month US Treasury Bill, average LAIF yield rate). This comparative analysis is included in investment report presented to the Board of Directors on a monthly basis.

19.0 POLICY REVIEW

This investment policy shall be reviewed regularly to ensure its consistency with the overall objectives of preservation of principal, liquidity, and return and its relevance to current law and financial and economic trends. The Board shall be responsible for maintaining guidance over this investment policy to ensure that IEUA can adapt readily to changing market conditions, and approve any modification to the investment policy prior to implementation.

20.0 STATE LAW

The legislated authority of the IEUA’s investments is covered in Section 53601, 53607, 53635, 53638, 53646, 53652, and 53653 of the Government Code. It is the policy of the IEUA to comply with the State laws governing its investments.
21.0 INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by resolution of the Board of Directors of IEUA*. Moreover, the Policy shall be reviewed whenever there are recommended changes or annually, whichever occurs first, and modifications must be approved by the Board of Directors.

ADOPTED AND APPROVED:

Name: Terry Catlin
Title: President, Board of Director
Date: May 18, 2016

* A Municipal Water District
APPENDIX I: GLOSSARY OF CASH MANAGEMENT TERMS

ASK PRICE:
The price at which securities are offered for sale; also known as offering price.

BASIS POINT:
One hundredth of one percent (i.e. 0.01 percent).

BOND PROCEEDS:
The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These moneys are used to finance the project or purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract.

BOOK VALUE:
The value at which a debt security is shown on the holder’s balance sheet. Book value is often acquisition cost plus/minus amortization and accretion, which may differ significantly from the security’s current value in the market.

BROKER:
A broker acts as an intermediary between a buyer and seller for a commission and does not trade for his/her own risk and account or inventory.

CALLABLE BOND:
A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

CALTRUST:
A Joint Powers Agency Authority created by local public agencies to provide a convenient method for local public agencies to pool their assets for investment purposes. CalTRUST is governed by a Board of Trustees made up of experienced local agency treasurers and investment officers. The Board sets overall policies for the program and selects and supervises the activities of the investment manager and other agents.

CERTIFICATE OF DEPOSIT (CD):
A time deposit with a specific maturity evidenced by a certificate.

CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS):
A private CD placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.

COLLATERAL:
Securities, evidence of deposit or other property, which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER:
A short-term, unsecured, promissory note with a fixed maturity of no more than 270 days. By statute, these issues are exempt from registration with the U.S. Securities and Exchange Commission.

CREDIT RISK:
The risk to an investor that an issuer will default in the payment of interest and/or principal on a security and a loss will result.

CUSTODIAN:
A bank or other financial institution that keeps custody of stock certificates and other assets.

DEALER:
A dealer, as opposed to a broker, acts as a principal in all transaction, buying and selling for his own risk and account or inventory.

DELIVERY OF SECURITIES:
There are two methods of delivery of securities; Delivery versus Payment and Delivery versus Receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of signed receipt for the securities.
DIVERSIFICATION:
Dividing investment funds among a variety of securities offering independent returns.

DURATION:
A measure of the timing of the cash flows to be received from a given-fixed income security. This calculation is based on three variables: term to maturity, coupon rate, and yield to maturity. The duration of a security is a useful indicator of its price volatility for given changes in interest rates.

FACE VALUE:
The principal amount owed on a debt instrument. It is the amount on which interest is computed and represents the amount that the issuer promises to pay at maturity.

FAIR VALUE:
The amount at which a security could be exchanged between willing parties, other than in a forced or liquidation sale. If a market price is available, the fair value is equal to the market value.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC):
A federal agency that insures bank deposits.

FEDERAL FARM CREDIT BANK (FFCB):

FEDERAL FUNDS RATE:
The rate of interest at which Federal funds are traded. This rate is considered to be the most sensitive indicator of the direction of interest rates, as it is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB):
The institutions that regulate and lend to savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Bank vis-à-vis member commercial banks. Although the banks operate under federal charter with government supervision, the securities are not guaranteed by the U.S. Government.

FEDERAL HOME LOAN MORTGAGE CORPORATION (FHLMC or Freddie Mac):
Established in 1970 to help maintain the availability of mortgage credit for residential housing. FHLMC finances these operations by marketing guaranteed mortgage certificates and mortgage participation certificates. Its discount notes and bonds do not carry direct U.S. Government guarantees.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA or Fannie Mae):
FNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a Federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. FNMA is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA securities do not carry direct U.S. Government guarantees.

FEDERAL RESERVE SYSTEM:
The central bank of the U.S. which consists of seven member Board of Governors, 12 regional banks, and about 5,700 commercial banks that are members.

FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA):
The Financial Industry Regulatory Authority (FINRA) is the largest independent regulator for all securities firms doing business in the United States. All told, FINRA oversees nearly 4,750 brokerage firms, about 167,000 branch offices and approximately 634,000 registered securities representatives.

INTEREST ONLY STRIPS:
The interest portion of a Treasury note or bond that has been stripped of its principal component through the commercial book-entry system.
INTEREST RATE RISK:
The risk of gain or loss in market values of securities due to changes in interest-rate levels. For example, rising interest rates will cause the market value of portfolio securities to decline.

INVERSE FLOATER:
Fixed income instrument whose coupon or interest rate is periodically reset according to a short term rate index such as LIBOR, or prime rate. Unlike the traditional floating rate instrument, however, the inverse floater’s rate is set equal to a fixed rate minus the short-term rate index.

INVESTMENT POLICY:
A clear and concise statement of the objectives and parameters formulated by an investor or investment manager for a portfolio of investment securities.

INVESTMENT PORTFOLIO:
A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

LIQUIDITY:
An asset that can be converted easily and rapidly into cash with minimum risk on principal.

LOCAL AGENCY INVESTMENT FUND (LAIF):
An investment pool managed by the California State Treasurer. Local government units, with consent of the governing body of that agency, may voluntarily deposit surplus funds for the purpose of investment. Interest earned is distributed by the State Controller to the participating governmental agencies on a quarterly basis.

MARKET TO MARKET:
Current market price of a security.

MARKET RISK:
Systematic risk of a security that is common to all securities of the same general class (stocks, bonds, notes, money market instruments) and cannot be eliminated by diversification (which may be used to eliminate non-systematic risk).

MARKET VALUE:
The price at which a security is currently being sold in the market. See FAIR VALUE.

MASTER REPURCHASE AGREEMENT:
A written contract covering all future transactions between the parties to repurchase agreements and reverse repurchase agreements that establish each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY:
The date that the principal or stated value of a debt instrument becomes due and payable.

MEDIUM-TERM NOTES (MTNs):
Corporate notes, having any or all of the features of corporate bonds and ranging in maturity from nine months out to thirty years. The difference between corporate bonds and MTNs is that corporate bonds are underwritten.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO):
A rating organization designated by the SEC as being nationally recognized, such as Moody's Investor Service, Inc. (Moody’s), Standard & Poor’s (S&P), and Fitch Ratings (Fitch).

NEGOTIABLE CERTIFICATES OF DEPOSIT:
Time deposits issued by Federal Deposit Insurance Corporation (FDIC) insured banks and are underwritten by the Financial Industry Regulatory Authority (FINRA) registered Broker/Dealers. Also known as “DTC Eligible CDs” or “Brokered Deposits”, this type of deposit is offered to investors by issuing institutions looking to raise liquidity and funding through the wholesale and institutional markets.

OPEN MARKET OPERATIONS:
Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the Federal Open Market Committee, (FOMC), in
order to influence the volume of money and credit in the economy. Purchases inject reserves into the banking system and stimulate growth of money and credit: Sales have the opposite effect. Open market operations are the Federal Reserve’s most important and most flexible monetary policy tool.

PAR VALUE:
The amount of principal that must be paid at maturity. Also referred to as the face amount of a bond, normally quoted in increments of $1,000 per bond.

PORTFOLIO:
The collection of securities held by an individual or institution.

PRIMARY DEALER:
A group of government securities dealers who submit daily reports of market activity and Positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker/dealers, banks and a few unregulated firms.

PRINCIPAL:
The face or par value of a debt instrument or the amount of capital invested in a given security.

PRUDENT PERSON RULE:
An investment standard: The way a prudent person of discretion and intelligence would be expected to manage the investment program in seeking a reasonable income and preservation of capital.

RANGE BONDS:
Bonds that accrue interest during a particular Interest Period at a fixed or variable rate if a specified index is within a specified range during a designated period of time or at a particular point in time. A Range Bond may not bear interest if the specified index is outside the specified range.

RATE OF RETURN:
1) The yield which can be attained on a security based on its purchase price or its current market price.
2) Income earned on an investment, expressed as a percentage of the cost of the investment.

REPURCHASE AGREEMENT (RP OR REPO):
A holder of securities (e.g. investment dealer) sells these securities to an investor (e.g. the Agency) with an agreement to repurchase them at a fixed date. The security “buyer” (e.g. the Agency) in effect lends the “seller” money for the period of the agreement, and the terms of the agreement are structured to compensate the “buyer” for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is increasing bank reserves.

REVERSE REPURCHASE AGREEMENT (REVERSE REPO):
A counter party (e.g. investment dealer) buys the securities from the holder of securities (e.g. the Agency) with an agreement to sell them back at a fixed date. The counter party in effect lends the seller (e.g. the Agency) money for the period of the agreement with terms of the agreement structured to compensate buyer.

SAFEKEEPING:
A service banks offer to clients for a fee, where physical securities are held in the bank’s vault for protection and book-entry securities are on record with the Federal Reserve Bank or Depository Trust Company in the bank’s name for the benefit of the client. As agent for the client, the safekeeping bank settles securities transactions, collects coupon payments, and redeems securities at maturity or, if called, on the call date.

SECURITIES:
Investment instruments such as notes, bonds, stocks, money market instruments and other instruments of indebtedness of equity.

SECURITIES AND EXCHANGE COMMISSION (SEC):
Agency created by Congress to protect investors in securities transactions by administering securities legislation.
SECONDARY MARKET:
A market for the repurchase and resale of outstanding issues following the initial distribution.

SPREAD:
The difference between two figures or percentages. It may be the difference between the bid (price at which a prospective buyer offers to pay) and asked (price at which an owner offers to sell) prices of a quote, or between the amount paid when bought and the amount received when sold.

SUPRANATIONALS:
International organizations whereby member states transcend national boundaries or interests to share in the decision making process and vote on issues pertaining to the wider grouping.

SWAP:
An agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified principal amount.

TREASURY BILLS:
A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS:
Long-term U.S. Treasury securities.

TREASURY NOTES:
Intermediate-term coupon-bearing U.S. Treasury securities having initial maturities from one year to ten years.

UNDERWRITER:
A dealer that purchased a new issue of municipal securities for resale.

U.S. TREASURY OBLIGATIONS:
Debt obligations of the U.S. Government sold by the Treasury Department in the forms of bills, notes, and bonds. Bills are short-term obligations that mature in one year or less and are sold at a discount. Notes are obligations that mature between one year and ten years. Bonds are long-term obligations that generally mature in ten years or more.

WEIGHTED AVERAGE MATURITY (WAM):
The average maturity of all the securities that comprise a portfolio, typically expressed in days of years.

YIELD:
The annual rate of return on an investment expressed as a percentage of the investment. Income yield is obtained by dividing the current dollar income by the current market price for the security.

YIELD CURVE:
Yield calculations of various maturities of instruments of the same quality at a given time to observe spread differences.

ZERO-INTEREST BOND
A bond on which interest in not payable until maturity (or early redemption), but compounds periodically to accumulate to a state maturity amount. Zero-interest bonds are typically issued at a discount and repaid at par upon maturity.
CERTIFICATION OF UNDERSTANDING

I hereby certify that I have personally read Inland Empire Utilities Agency’s (IEUA) Investment Policy and the California Government Code pertaining to the investments of the IEUA.

I will disclose to the IEUA any potential risks or conflicts with the Investment Policy that might arise out of business transactions between my firm and the IEUA.

I will undertake reasonable efforts to prevent imprudent transactions involving funds of the IEUA and will endeavor to keep familiar with the IEUA’s investment objectives and constraints, as they exist from time to time.

I will only offer investments for the IEUA’s consideration that are in conformity to the IEUA’s Investment Policy.

I attest to the accuracy of the responses to the IEUA’s questionnaire.

NOTE: Completion of the attached questionnaire is only part of Inland Empire Utilities Agency’s certification process and DOES NOT guarantee that the our financial institution will be guaranteed any portion of the investment business with Inland Empire Utilities Agency.

FIRM NAME

PRINTED NAME:

SIGNATURE: ____________________________      DATE________________
INLAND EMPIRE UTILITIES AGENCY  
OFFICE OF THE CHIEF FINANCIAL OFFICER/AGM OR GENERAL MANAGER  
 BROKERS/DEALERS QUESTIONNAIRE AND CERTIFICATION  

Please fill out form and return to Inland Empire Utilities Agency  

1. Name of Firm ____________________________________________  
2. Address _______________________________________________  

   (Local)  
   (National Headquarters)  

3. Telephone No. _____________________________ _____________________________  
4. Primary Representatives:  
   Name _____________________________ Name _____________________________  
   Telephone _____________________________ Telephone _____________________________  
   Years in institutional sales ____________ Years in institutional sales__________  
   Years with firm ________________ Years with firm ________________  

5. Are you a Primary Dealer in U.S. Government Securities?  
   Yes  ___ No  ___  
6. Are you a Regional Dealer in U.S. Government Securities?  
   Yes  ___ No  ___  
7. Are you a Broker instead of a Dealer?  
   i.e., You DO NOT own positions of Securities?  
   Yes  ___ No  ___  
8. What is the net capitalization of your firm?  
   _____________________________  
9. What is the date of your fiscal year-end?  
   _____________________________  
10. Is your firm owned by a holding company? If so, what is its name and net capitalization?  
    _____________________________  
11. Please provide your wiring and delivery instructions.  
    _____________________________  
12. Which of the following instruments are offered regularly by your local desk?  
   ____ - Bills  ____________________  
   _____________________________  
13. Which of the above does your firm specialize in marketing?  
    _____________________________  

14. Please identify your most directly comparable Local Agency Clients in our geographical area:

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<th>Entity</th>
<th>Contact Person</th>
<th>Telephone</th>
<th>Client Since</th>
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15. What reports, transactions, confirmations and paper trail would we receive?

16. Please include samples of research reports or market information that your firm regularly provides to local agency clients.

17. What precautions are taken by your Firm to protect the interest of the public when dealing with government agencies as investors?

18. Have you or your Firm been censored or punished by a regulatory State or Federal agency for improper or fraudulent activities, related to the sale of securities?  ■ Yes  ■ No

19. If yes, explain.

20. Attach certified documentation of your capital adequacy and financial solvency. In addition, an audited financial statement must be provided within 120 days of your fiscal year-end. (Copy of a Published Financial Statement)


22. Attach proof of California Department of Securities Registration.

23. Attach proof of Securities and Exchange Commission registration.

24. Attach proof of adequate insurance coverage.

25. Are you listed under GFOA Yield Advantage?  ■ Yes  ■ No
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<td>Name of Firm</td>
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<td>Primary Representatives:</td>
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<td>Manager/Partner-In-Charge:</td>
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<td>5.</td>
<td>What are the total assets of the Bank/Savings and Loan?</td>
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<td>What is the current net worth ratio?</td>
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<td>What is the net worth ratio for the previous years?</td>
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<td>What are your required capital ratios?</td>
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<td>A. Tangible capital ratios?</td>
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<td>B. Core capital ratio?</td>
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<td>C. Risk-based capital ratio?</td>
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<td>9.</td>
<td>What is the date of your fiscal year-end?</td>
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<td>A. Has there been a year during the past three years in which the Bank/Savings and</td>
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<td>loan did not make a profit?</td>
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<td>10.</td>
<td>Have you read the California Government Code §53630 through §53686 pertaining to all</td>
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<td></td>
<td>of the State’s requirements governing the deposit of monies by local agencies?</td>
</tr>
<tr>
<td></td>
<td>□ Yes □ No</td>
</tr>
<tr>
<td>11.</td>
<td>Amounts above the FDIC insurance coverage must be collateralized with Government</td>
</tr>
<tr>
<td></td>
<td>Securities. Where is the collateral for time deposits of the Bank/Savings and Loan</td>
</tr>
<tr>
<td></td>
<td>held?</td>
</tr>
<tr>
<td>12.</td>
<td>Has there been a period during the past five years when time deposits of the Bank/</td>
</tr>
<tr>
<td></td>
<td>Savings and Loan have not been fully collateralized? If yes, explain</td>
</tr>
</tbody>
</table>
13. What is the education level of the primary contact(s)?

14. How many years of related experience does the primary contact(s) have?

15. What other banking services would you be interested in providing Inland Empire Utilities Agency?

16. What transaction documents and reports would we receive?

17. What information would you provide to our Chief Financial Officer/AGM or General Manager?

18. Describe the precautions taken by your Bank/Savings and Loan to protect the interest of the public when dealing with government agencies as depositors of investors.

19. Please provide your Contract of Deposit of Monies pre-signed and sealed by your institution, as well as any signature cards that you may require.

20. Please provide your wiring instructions.

21. Please provide your Bank/Savings and Loan most current audited financial statements. (Copy of Published Financial Statement).

22. Please attach biographical information for your representative.
Authorized Brokers/Dealers

The following brokers/dealers are authorized to provide investment services to the IEUA, in accordance with the IEUA’s Investment Policy:

1. BOSC, Inc.
2. Higgins Capital Management
3. Ladenburg Thalmann & Co., Inc.
5. Oppenheimer & Co. Inc.
6. UBS Financial Services Inc.
7. Wedbush Morgan Securities, Inc.
ORDINANCE NO. 102

AN ORDINANCE OF THE INLAND EMPIRE UTILITIES AGENCY*, SAN BERNARDINO COUNTY, CALIFORNIA, ESTABLISHING FISCAL CONTROL

BE IT ORDAINED by the Board of Directors of the Inland Empire Utilities Agency* as follows:

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PART I - DESIGNATIONS

SECTION 101 - PURPOSE

The Fiscal Control Ordinance of the Inland Empire Utilities Agency sets forth the requirements for fiscal control that provide a framework for ensuring accountability in the Agency’s budgetary and financial operations. These requirements provide for a system of financial administration, accounting, fiscal, and budgetary control on the same basis as the audited financial statements which conform to recommended best practices for budgeting according to the Government Finance Officers Association of the United States of America and Canada.

SECTION 102 - DEFINITIONS

A. Account Categories – Shall mean Operating and Non-Operating account groups as defined in the Agency’s budget to report sources and uses of funds and to execute budget control.

B. Adopted Budget - Shall mean the plan of financial operations adopted by the Board of Directors embodying an estimate of proposed revenues and funding sources, operating expenses, capital expenditures, debt service costs, and other uses of funds for a given fiscal year (annual budget), or for two consecutive fiscal years (biennial budget).

C. Agency – Shall mean the Inland Empire Utilities Agency.

D. Amended Budget - Shall mean the Adopted Budget inclusive of approved budget amendments and budget transfers.

E. Appropriation/Appropriated Expense – Shall mean an expense which has been authorized by the Board of Directors for a specific fund or project which permits designated Agency employees, as defined in the Agency’s Procurement Ordinance, to incur obligations against, and to incur expenses for a specified purpose. Appropriations approved by the Board of Directors in the Adopted or Amended Budget are limited to the fiscal year they are approved for unless otherwise specified. All unexpended appropriations shall lapse at the end of the fiscal year, unless approved by the Board to be carried forward to the following fiscal year. The Agency’s annual appropriation is subject to the State’s Article XIIIIB Gann Appropriation Limit.

F. Board of Directors - Shall mean the Board of Directors (Board) of the Inland Empire Utilities Agency, which sometimes is referred to as the Board within this document.

G. Budget Amendment – Shall mean a change to the adopted budget of a fund in a fiscal year, including the reallocation of expenditures or resources between funds, or between account categories within the same fund, or an increase to total project budget within the
same fund as reported in the Agency’s Capital Improvement Plan (CIP). Budget amendments are subject to Board approval or ratification.

H. Budget Control – Shall mean a system of management control in which actual costs, revenues, and resources are compared to the Agency’s Adopted or Amended Budget to ensure consistency with the Board approved appropriations, and identify if changes are needed, as defined in Agency’s Budget Amendment Policy.

I. Budget Transfer – Shall mean the reallocation of appropriations or resources within the same fund and the same account category in a given fiscal year, as defined in the Budget Amendment Policy.

J. Capital Expenditures – Shall mean costs associated with acquisition, construction, replacement and rehabilitation (R&R), and improvement of fixed and real assets. Based on the scope and duration of a capital project, the total project budget can be established for one or multiple years.

K. CFO/AGM – Shall mean the Chief Financial Officer/Assistant General Manager of the Inland Empire Utilities Agency.

L. Capital Improvement Plan (CIP) – Shall mean the Agency’s capital improvement plan provided in the Adopted Budget document, Capital section.

M. Debt Service – Shall mean the current year portion of principal and interest costs incurred on long-term debt issued by the Agency.

N. Designated Agency Employee/Designee – Shall mean those employees of the Agency empowered under the provisions of the Fiscal Control Ordinance and Procurement Ordinance to incur obligations against and to make expenses of appropriated resources.

O. Emergency Procurement – Shall mean any procurement required for prevention/protection against imminent danger, or to mitigate the loss or impairment of: life, health, or safety of the public, Agency employees, suppliers, contractors; public or private property; compliance with critical permit and regulatory requirements; or any other condition which cannot reasonably be foreseen and would have a significant effect on the public’s health/safety or that could have a significant adverse financial impact on the Agency.

P. Enterprise Fund – Shall mean a fund which is used to account for operations that are financed and operated in a manner similar to a private business enterprise. Enterprise funds account for operations, capital and debt service costs which are substantially financed by revenue derived from user charges and fees.

Q. Fund – Shall mean Agency’s enterprise funds as established for a specific program to account for operations, capital, debt service costs, and funding sources.

R. GM – Shall mean the General Manager of the Inland Empire Utilities Agency.
S. General Manager (GM) Contingency Account – Shall mean an account budgeted with contingency funds which the GM or his designee can transfer to any funds to meet unplanned requirements for any account or project under the Operating account category. Replenishment of the GM Contingency Account appropriation is considered a budget amendment and requires approval by a majority of the Board. Use of the GM contingency funds and requests for replenishment to the account will be submitted as part of the budget variance reporting process, or if necessary, at the next regularly scheduled meeting of the Board of Directors.

T. Lapsed Appropriations – Shall mean all appropriations which are not obligated, encumbered, or expended and which lapse at the end of the fiscal year.

U. Non-Operating Accounts – Shall mean classification of accounts utilized by the Agency which are not directly related to day-to-day operational activities. The Non-Operating expense classification includes capital, debt service and other non-operating expenditures. The Non-Operating revenue classification includes connection fees, tax receipts, capital contributions, interest income, grant and debt proceeds, and other non-operating miscellaneous receipts.

V. Operating Accounts – Shall mean classification of accounts utilized by the Agency to track day-to-day operational revenue and expense. The operating expense classification includes among others; chemicals and utilities. The operating revenue classification includes among others; user charges, recycled water sales, and imported water sales.

W. Special Assessment Fund – Shall mean fund that is used to account for special assessments levied to finance public improvements or services deemed to benefit the properties, against which the assessments are levied.

X. State’s Article XIII Gann Appropriation Limit – Shall mean Article XIIIIB of the California Constitution which was added by the November 1979 passage of the Gann Initiative. This legislation mandates the Agency compute, and establish by resolution, an annual appropriation limit that places a ceiling on the total amount of tax revenues that can be appropriated annually.

Y. Total Project Budget – Shall mean the total amount planned to fully fund a project through completion to meet its specific purpose and scope. The total project budget for an operations and maintenance project should be limited to one fiscal year. The total project budget for capital projects can extend over multiple fiscal years.

SECTION 103 - FISCAL YEAR

The fiscal year shall begin on July 1 of each year and ends on June 30 of the succeeding year.
SECTION 104 - FUND STRUCTURE

The following fund types may be established and shall be used as necessary to provide for the proper accounting of all financial activities of the Agency: Enterprise and special assessment. All Agency funds are enterprise funds, and include both capital and operating activities.

SECTION 105 - SELF-BALANCING ACCOUNTS

A complete self-balancing group of accounts shall be established and maintained for each fund used. This group of accounts shall include all general ledger accounts and subsidiary records necessary to reflect compliance with legal provisions, and to set forth the financial position and the results of financial operations of the fund. General ledger accounts record how much is spent and for what and ensure management is accountable for controlling expenditures as appropriated by the Board.

SECTION 106 - BASIS OF ACCOUNTING

The accrual basis of accounting shall be used so that expenses are recorded at the time liabilities are incurred and revenues are recorded when earned in conformity with Generally Accepted Accounting Principles (GAAP). All receipts and disbursements shall be posted promptly and, at a minimum, on a monthly basis.

SECTION 107 - ADOPTION OF THE BUDGET

The Agency’s budget will be adopted by the Board prior to the first day of the fiscal year. The proposed budget shall be submitted by the CFO/AGM and transmitted to members of the Board for review at a minimum of 10 days before the required date of adoption. However, if for a valid and sufficient reason, the budget cannot be adopted by the first day of the fiscal year, the budget shall be adopted no later than 45 days subsequent to the beginning of the fiscal year. If the budget is not adopted prior to the beginning of the fiscal year, a resolution authorizing the continuation of necessary and essential expenses to operate the Agency shall be adopted prior to the beginning of the fiscal year.

The budget, as adopted, shall be a balanced budget with anticipated sources of funds including appropriated unencumbered fund balances and reserves equal to appropriated uses of funds. Each fund within the budget shall also be balanced.

The adoption of the budget shall be accomplished by the approval of a budget resolution. The resolution must be entered into the minutes of the Board meeting at which it was adopted.

SECTION 108 - BUDGET, A PUBLIC RECORD

At the time the proposed budget is submitted by the CFO/AGM and delivered to members of the Board for its review, a summary of the proposed budget shall be made available for public inspection during regular business hours at the Agency’s administrative office and website for a
minimum of 10 days before the required date of adoption. At a minimum the summary of the proposed budget should include the Sources and Uses of Funds by Funds reports, program rates and fees, and a listing of all projects.

When the proposed budget has been approved by the Board, the adopted budget document shall be made available for public inspection, during regular business hours at the Agency’s administrative office; as well as, on the Agency’s website (www.ieua.org).

SECTION 109 - BUDGET AMENDMENTS

Budget amendments must be approved by a majority of the Board prior to obligating funds in excess of the budgeted appropriations to ensure they pose no financial risk to the Agency’s overall financial health. The only exceptions to prior Board approval are; emergency procurements and the use of the GM Contingency Account(s) to support unplanned expenditures.

- Emergency procurements can be approved by the GM or designee and submitted for ratification by the Board at the next regularly scheduled meeting, as defined in the Agency’s Procurement Ordinance.

- Solely in the case of the GM Contingency Account(s), the GM or designee is authorized to reallocate the GM Contingency budget to other funds and account categories as needed to support unplanned expenditures, as defined in the Agency’s Budget Amendment Policy. Replenishment of the GM Contingency Account are considered budget amendments and are subject to approval by the majority of the Board.

Changes to the second year of the Adopted Biennial Budget are considered budget amendments. These budget amendments shall be made through the mid-year budget review process which takes place in the second half of the first year of the biennial budget cycle.

Encumbered, obligated or unexpended funds at the end of the fiscal year carried forward to the following fiscal year, as defined in the Agency’s Fiscal Year End Carry Forward of Encumbrances and Related Budget, are considered budget amendments and require approval by the majority of the Board.

PART II – RESPONSIBILITIES

SECTION 201 - APPROVAL AND RESPONSIBILITIES

All Agency employees shall comply with the provisions of this Ordinance to ensure the responsible and prudent use of public funds, and to maintain the preservation of the public trust.
The CFO/AGM, under the direction of GM, is authorized as follows:

- Administration, control, oversight, and reporting of the financial affairs of the Agency;
- Oversight of disbursement of all monies;
- Exercise of budgetary control over expenditures to ensure that annual appropriations and total project budget as approved by the Board are not exceeded; and
- Confirmation that appropriation will be encumbered and no expenditure shall be made unless sufficient unencumbered fund balance is available.

The GM and the CFO/AGM are authorized to approve reallocation of appropriations between departments within the same fund and account category, as defined in the Budget Amendment Policy.

Department managers are responsible for monitoring their budgets and determining if a budget amendment or budget transfer is necessary.

SECTION 202- UNENCUMBERED FUND BALANCE

All appropriations which are not obligated, encumbered, or expended at the end of the fiscal year shall lapse and shall become part of the unrestricted fund balance after adjustment for required fund reservations. The final unrestricted fund balance at the end of a fiscal year may be appropriated in the following fiscal year.

SECTION 203 - FINANCIAL POLICY AND REPORTING

Financial Policies to support the Agency’s business goals of fiscal responsibility at the direction of the GM and CFO/AGM shall be presented to the Board upon revision or update, based on regulatory changes or staff recommendations and updated in accordance with California code.

Financial reports shall be prepared and presented to the Board during the fiscal year, amongst them:

- Monthly report on the Agency’s cash and investments activities and status.
- Monthly report on detailed disbursements.
- Quarterly report on current conditions of all major accounts compared to the Adopted or Amended Budget, including budget transfers and budget amendments implemented during the report period.
- A Comprehensive Annual Financial Report shall be prepared and published no later than six months after the conclusion of each fiscal year.
- Single Audit, as required.

All financial reports shall be posted on the Agency’s website.

SECTION 204 - ANNUAL INDEPENDENT AUDIT
All funds, accounts, and financial transactions of the Agency, including a single audit for grants related activities if required, shall be subjected to an annual audit by an independent certified public accountant.

SECTION 205 - IMPLEMENTATION RESPONSIBILITY

The responsibility for the proper execution of the provisions of this Fiscal Control Ordinance shall be with the CFO/AGM under the direction of the GM, except where responsibility is explicitly given to the Board.

SECTION 206 - SEVERABILITY

In the event any section, subsection, sentence, clause, or phrase of this Ordinance shall be declared or adjusted invalid or unconstitutional, such adjudication shall in no manner affect the other sections, subsections, sentences, clauses, or phrases of this Ordinance, which shall remain in full force and effect, as if the section, subsection, sentence, clause or phrase so declared or adjudged invalid or unconstitutional were not originally part hereof.

SECTION 207 - REPEAL OF PRIOR ORDINANCES

Upon adoption of Ordinance No. 102, Ordinance No. 90 is hereby repealed in its entirety.

SECTION 208 - EFFECTIVE DATE AND EXECUTION

This Ordinance shall take effect immediately upon adoption by the Board, and execution of said Ordinance by the President and Secretary/Treasurer thereof.

ADOPTED, this 18th day of May, 2016.

Terry Catlin
President of Inland Empire Utilities Agency*, and of the Board of Directors
thereof

ATTEST:

[Signature]

Steven J. Elie,
Secretary of the Inland Empire Utilities Agency* and the Board of Directors Thereof

* A MUNICIPAL WATER DISTRICT
STATE OF CALIFORNIA       )
COUNTY OF               ) SS
SAN BERNARDINO         )

I, Steven J. Elie, Secretary of the Inland Empire Utilities Agency*, DO HEREBY CERTIFY that
the foregoing Ordinance being No. 102, was adopted at a regular Board Meeting on May 18, 2016,
of said Agency by the following vote:

AYES:     Hall, Elie, Camacho, Catlin
NOES:     None
ABSTAIN:  None
ABSENT:   Koopman

Steven J. Elie, Secretary/Treasurer

(SEAL)

* A MUNICIPAL WATER DISTRICT