



# POLICY

## Dublin San Ramon Services District

<b>Policy No.:</b>	P400-14-1	<b>Type of Policy:</b>	Finance
<b>Policy Title:</b>	Water Expansion Fund Management		
<b>Policy Description:</b>	The obligations of the Water Expansion Fund are to be prioritized according to the direction provided in this policy		
<b>Approval Date:</b>	March 4, 2014	<b>Last Review Date:</b>	2014
<b>Approval Resolution No.:</b>	13-14	<b>Next Review Date:</b>	2018
<b>Rescinded Resolution No.:</b>	N/A	<b>Rescinded Resolution Date:</b>	N/A

It is the Policy of the Board of Directors of Dublin San Ramon Services District that the obligations of the Water Expansion fund (Fund) are to be prioritized according to the direction provided in this policy:

### **BACKGROUND, DEFINITIONS AND BASIS FOR POLICY**

The District's Water Expansion fund is dedicated to paying for the expansion of water facilities to serve growth (and to pay a share of debt related to facilities that have been already built to serve growth). The facilities funded by the Water Expansion fund were required to be built well in advance of the projected development and resultant capacity fee revenue required to pay for the facilities. The District secured funding for these projects in a variety of manners – traditional debt via the capital markets, loans from the State and advances in the form of developer construction or debts to be repaid by future connection revenue to be received over many years.

This fund remains one of the most critically funded of the various funds maintained by the District. The Water Expansion fund would have depleted its working capital in FYE 2010 had the District not taken the unprecedented step of instituting a Temporary Infrastructure Charge, as well as administratively suspending several “credit against fee” arrangements with developers. In the intervening years, the Board has taken various actions to significantly strengthen the Fund (refinanced District and some JPA debt and delayed many capital expenditures) so that, at the moment, the Fund has a working capital balance that meets debt covenants and Board established policy targets.

The Water Expansion fund faces a number of ongoing “issues” that will have a material bearing on the fund balance. How these issues are handled and their priority for resolution is critical to being able to

manage the Fund in accordance with the Financial Reserve policy. It should be noted that this Water Expansion Fund Management policy is intended to be used in conjunction with the Financial Reserves policy for setting of targeted fund levels and is intended to ensure compliance with that primary policy. Also, in no way is this policy intended to supersede the District obligations in its various indentures and loans documents.

### **FUND MANAGEMENT ISSUES**

While a number of emerging issues have already been resolved, a listing and brief explanation of those issues which continue to have impact on the Water Expansion fund are as follows:

- **Windemere BLC Closeout** Windemere BLC is one of the two organizations having major interests in the Dougherty Valley. Their portion of that development is now essentially complete. The District and Windemere BLC entered into a development agreement under which Windemere BLC directly funded some of the major infrastructure for the District of a size sufficient for the then-planned level of development. The District was obligated to provide credits to Windemere BLC for their capacity right payments in accordance with the development agreement. That agreement is now being closed out and it has become apparent that the process for extending the credits was not precisely followed in all instances due to the complexity associated with that project.
- **Other Reimbursements** The District has entered into development agreements with various other developers. These include Shapell / Lin and Pinn Brothers<sup>1</sup>. The projects associated with those agreements have not yet been completed so the agreements are still active. The agreements allow the District, at its discretion, to administratively suspend providing credits against payments for capacity rights when the Water Expansion Fund's balance is insufficient. The credits were suspended in FYE 2010 and have remained suspended. The District has been asked to resume the crediting program. Doing so will affect future cash flows in that the connection fees received from those developments will be about fifty percent of the full price until the reimbursement amounts are fully satisfied. The recent Code revision to make payments for capacity rights payable at building permit also had the effect of deferring the crediting of these reimbursements.
- **Regional Wastewater Disposal Credits for Recycling** Given the size of the District's current and Pleasanton's planned recycled water programs, there is some degree of recycling that occurs year-round. Year-round recycling benefits the Wastewater Enterprise fund which is approximately 3 mgd short of the disposal capacity needed for build-out of the general plans of Dublin, San Ramon and Pleasanton. That deficiency arose when the District abandoned<sup>2</sup> its indirect potable reuse project (Clean Water Revival) in the face of litigation initiated by Pleasanton and Zone 7. Very preliminary analyses indicate that the value to the District's Water Expansion fund would be approximately \$1.0M. This value would arise as a transfer

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<sup>1</sup> Pinn Brothers is no longer in business; their interest is now with Tralee.

<sup>2</sup> Per Board Policy P300-11-1 (Operations) adopted by Resolution No. 56-11

from the Regional Expansion fund to the Water Expansion fund (in essence a “purchase” of the winter time disposal capacity that is embedded in the recycled water programs).

- **New Water Master Plan** The District’s Water Master Plan dates to 2005. Best practice is that master plans should be reviewed and updated every five years to keep them current. The District’s Water Master Plan was scheduled to be updated in FYE 2010. That effort was deferred at that time in response to the then reeling economy. The balance in the Water Expansion Fund in future years are heavily driven by anticipated CIP capital expenditures. The District’s Water Master Plan, which at the time represented a 15-year planning horizon, is out of date and does not project beyond FYE 2021. Funding is provided in the CIP for an update to the Water Master Plan. Earlier, more or larger facilities will affect the Fund. Later, fewer or smaller facilities will improve the Fund’s health. The update to the Water Master Plan is scheduled to be initiated in the second half of FYE 2014 and be completed in FYE 2015. The impact of the “updated Water Master Plan issue” is difficult to predict at the present time<sup>3</sup> and is the single most critical piece of information needed to analyze the long-term health of the Water Expansion fund.
- **“Repayment” of Temporary Infrastructure Charge** During the four fiscal years during which the Temporary Infrastructure Charge was in place, the District ratepayers contributed \$8.2M towards obligations that were properly the responsibility of new growth. As of the date of adoption of this policy, \$3.3M of that amount has been “repaid,” leaving \$4.9M still to be addressed.

## **FUND MANAGEMENT GUIDELINES**

Fund Management Guidelines in the following priority order:

- Priority I. **Pay Bonds, Meet Terms of Debt Covenants and Maintain Reserves** Payment of debt obligations and ensuring compliance with contractual debt covenants is a primary concern. It is a priority not only that funds be available to make all scheduled debt payments, but that the District comply with all contractual debt covenants including reserve and coverage ratios.
- Priority II. **Fund Approved CIP Expenditures** Undertake projects in furtherance of the Mission of the District to provide a safe, reliable water supply for the communities it serves and do so in accordance with the Board approved Capital Improvement Budget, including proceeding with the Water Master Plan in Fiscal Year Ending 2014 and Fiscal Year Ending 2015 CIP as approved by the Board in the Capital Improvement Budget.

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<sup>3</sup> It is anticipated that costs will go up for the anticipated facilities for inflationary reasons and that perhaps one additional water reservoir may be needed as driven by development at Camp Parks. Tempering this may be a slower pace needed for the facilities given the slow-down in building that has occurred over the last several years and which is expected to continue (at least as compared to the 2005-era pace of development).

- Priority III. **Windemere BLC Closeout** Equitable close-out the reimbursement agreement with Windemere BLC in general accordance with direction given by the Board.
- Priority IV. **Other Reimbursements** Conditionally, un-suspend the reimbursements to developers with whom the District has other reimbursement agreements. The need to re-impose suspension shall be considered annually at the start of each fiscal year when analyzing the fund status and development projections.
- Priority V. **Regional Wastewater Disposal Credits for Recycling** Equitably, ensure that the Regional fund contributes toward the cost of the District and Pleasanton's recycled water programs in an amount that is related to the benefit those recycled water programs provide to the Water Expansion fund because of the recycled water program's year round recycling in general accordance with the prior direction given by the Board.
- Priority VI. **Conditional TIC Repayment** Equitably reimburse District ratepayers for obligations that were properly the responsibility of new growth and that were paid for by ratepayers through the imposition of the Temporary Infrastructure Charge (TIC). The repayment shall be done in accordance with the following principles until the outstanding amount is satisfied:
- A. Conditionally repay the TIC provided that the priorities above have been satisfied.
  - B. At the end of each fiscal year, commencing with FYE 2014, the Board will review the Water Expansion fund balance and any surplus for the fiscal year. Based on the Board's assessment of the projected health of the Water Expansion fund over the ensuing ten-year period, the Board will use its best business judgment to repay all, some or none of the TIC each year in consideration of the following parameters:
    - a. Board established financial policies;
    - b. Fund balances as compared to fund reserve targets are the key decision making tool;
    - c. Contractual obligations;
    - d. District's infrastructure needs;
    - e. Projected fund balances should be at or above target levels based on development as planned scenario for the ensuing three-year period;
    - f. Projected fund balances should be no more than 15% below fund target level during years 4 through 10 and in no more than one such year; and
    - g. Projected fund balances should never be negative under the stressed development scenario (60% of the planned development after 3 years).
  - C. An amount as decided above will be transferred from the Water Expansion fund to the Water Rate Stabilization fund. It is the intent to keep that amount in the Rate Stabilization fund, only to be used should Water Expansion fund balances

drop, so as to offset, as much as possible, any potential need for the re-  
imposition of a TIC.

- D. The transfer amount would not be budgeted but is to be decided each year.
- E. This approach is guidance and shall not be binding and would only be done provided the targeted Fund balance can be maintained as described herein and upon approval by the Board of Directors.