

Agenda

Sacramento Suburban Water District Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Monday, October 2, 2017
3:00 p.m.

Where appropriate or deemed necessary, the Board may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the District's Administrative Office at the address listed above.

The public may address the Board concerning an agenda item either before or during the Board's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The President will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 679.3972. Requests must be made as early as possible, and at least one full business day before the start of the meeting.

Call to Order

Roll Call

Announcements

Public Comment

This is the opportunity for the public to comment on non-agenda items within the Committee's jurisdiction. Comments are limited to 3 minutes.

Items for Discussion and Action

1. 2017 Audit Engagement Letter and Contract
Discussion and possible action on the proposed Audit Engagement Letter and Contract with Richardson and Company.
2. Letter of Credit Extension with Sumitomo Mitsui Banking Corporation
Discussion and possible action on the proposed letter of credit extension terms and recommend all draft substantially final legal documents and resolutions to be finalized and presented to the full Board for approval.
3. 2018 Budget and 2019 Forecast – First Draft and Reserve Policy (PL – Fin 004)
Provide direction to staff regarding the draft 2018/19 budget.

4. Set Next Finance and Audit Committee Meeting
Set next Committee meeting date and time.

Adjournment

Upcoming Meetings:

- Wednesday, October 4, 2017 at 4:00 p.m., Facilities and Operations Committee Meeting
- Monday, October 9, 2017 at 6:00 p.m., Special Board Workshop
- Monday, October 16, 2017 at 3:00 p.m., Water Quality Committee Meeting
- Monday, October 16, 2017 at 6:00 p.m., Regular Board Meeting

I certify that the foregoing agenda for the October 2, 2017, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by September 27, 2017, in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Robert S. Roscoe
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 1

Date: September 13, 2017

Subject: 2017 Audit Engagement Letter and Contract

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Recommend approval of the 2017 Audit Engagement Letter and Contract with Richardson & Company, LLP to the full Board of Directors and request authorization for the Finance and Audit Committee Chair (Director Thomas) to execute the Engagement Letter and Contract.

Discussion:

The District has received the “Engagement Letter” for the December 31, 2017 audit from Richardson & Company, LLP (see Exhibit 1.) The Engagement Letter is the scope of work for the audit and serves as the Exhibit to the contract agreement between the District and the auditors and is renewable annually. The District’s contract for the engagement is attached as Exhibit 2.

Staff has reviewed the Engagement Letter and confirmed it meets all the services requested by the Board in previous years, including the expanded expenditure testing that has requested for the past twelve years over and above that required for a standard public agency audit (see the second paragraph on page 2 of Exhibit 1, the Engagement Letter) and the Federal Grant Single Audit. As noted on page 9 of the Engagement Letter, the cost of the expanded testing will be \$6,370, while the cost for the Single Audit, if one is deemed necessary, will be \$4,250.

Per the District’s “Engagement of Auditor Policy” (PL – Fin 001), “the Finance and Audit Committee is responsible for recommending the District’s independent auditor to the full Board for appointment and compensation, and administering the relationship between the District and independent auditor during the course of the audit...” Therefore, the Finance and Audit Committee will review audit results as the audit progresses. At the conclusion of the audit, the auditors will provide a report to the Finance and Audit Committee and the Board of Directors.

Fiscal Impact:

\$41,290 for the audit, comprised of \$33,900 for the financial statement audit, \$1,020 for reviewing GASB No. 68 retirement disclosures and \$6,370 for the District requested additional procedures. An additional \$4,250 may be needed if the Federal Grant Single Audit is necessary.

Strategic Plan Alignment:

Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.



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July 12, 2017

Finance and Audit Committee
Sacramento Suburban Water District
3701 Marconi Avenue
Sacramento, California 95821

We are pleased to confirm our understanding of the services we are to provide the Sacramento Suburban Water District (the District). We will audit the financial statements, including the notes to the financial statements which collectively comprise the basic financial statements of the District as of and for the year ended December 31, 2017. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the District's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the District's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Schedule of funding progress for the other postemployment benefits plan
2. Schedule of Proportionate Share of the Net Pension Obligation
3. Schedule of Contributions to the Pension Plan

We have also been engaged to report on supplementary information other than RSI that accompanies the District's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole.

1. Schedule of expenditures of federal grants (if applicable).

The following other information accompanying the financial statements will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

1. Transmittal Letter
2. Statistical Section

At the request of the District, we will perform additional procedures by expanding the scope of our expense testing to include additional sample sizes for general cash disbursements, payroll disbursements, wire and ACH transfers, petty cash, and purchasing card payments. This testing will include verifying payments to the District employees and Board members on a sample basis. Payment verification will include verifying the pay rates for at least one period of senior management, finance staff, anyone involved in the payroll processing function and a sample of ten other employees. The results of our work will be reported in the governance letter issued as part of the audit.

Audit Objective

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on—

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements, and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on each major program in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the

requirements of Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our Single Audit. Our reports will be addressed to the Board of Directors of the District. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the Single Audit compliance opinions are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement, or may withdraw from the engagement.

Management Responsibilities

Management is responsible for the basic financial statements, schedule of expenditures of federal grants and all accompanying information as well as all representations contained therein. Management is also responsible for identifying all federal grants received and understanding and complying with the compliance requirements, and for preparation of the schedule of expenditures of federal grants (including notes and noncash assistance received) in accordance with the requirements of Uniform Guidance.

Management is responsible for establishing and maintaining effective internal controls, including internal controls over compliance, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; following laws and regulations; ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and ensuring that management is reliable and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. Management is also responsible for the selection and application of accounting principles; for the preparation and fair presentation in the financial statements in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations and the provisions of contracts and grant agreements.

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which they are aware that is relevant to the preparation and fair presentation of the financial statements, (2) additional information that we may request for the purpose of the audit, and (3) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Management's responsibilities also include, including identifying significant vendor relationships in which the vendor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the financial statements. Management's responsibilities include informing us of their knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the entity complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by Uniform Guidance, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for preparation of the schedule of expenditures of federal grants (including notes and noncash assistance received) in conformity with Uniform Guidance. Management agrees to include our report on the schedule of expenditures of federal grants in any document that contains and indicates that we have reported on the schedule of expenditures of federal grants. Management also agrees to make the audited financial statements readily available to intended users of the schedule of expenditures of federal grants no later than the date the schedule of expenditures of federal grants is issued with our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) Management is responsible for presentation of the schedule of expenditures of federal grants in accordance with Uniform Guidance; (2) Management believes the schedule of expenditures of federal grants, including its form and content, is fairly presented in accordance with Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) Management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal grants.

Management is responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. Management agrees to include our report on the supplementary information in any document that contains and indicates that we have reported on the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon or make the audited financial statements readily available to users of the supplementary information no later than the date the

supplementary information is issued with our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) Management is responsible for presentation of the supplementary information in accordance with GAAP; (2) Management believes the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) Management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as planned corrective actions, for the report, and for the timing and format for providing that information.

Audit Procedures-General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention, unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a Single Audit. Our

responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about their responsibilities for the financial statements; schedule of expenditures of federal grants; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards. Because of the importance of oral and written management representations to an effective audit, the District releases and indemnifies Richardson & Company, LLP and its personnel from any and all claims, liabilities, costs and expenses attributable to any active negligence on the part of the District.

Audit Procedures-Internal Control

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards, *Government Auditing Standards*, and Uniform Guidance.

Audit Procedures-Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the District's compliance with applicable laws, regulations, contracts and agreements. However, the objective of our audit will not be to provide

an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of test of transactions and other applicable procedures described in the *Uniform Guidance Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the District's major programs. The purpose of those procedures will be to express an opinion on the District's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to Uniform Guidance.

Audit Administration and Other

We understand that your employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide copies of our reports to the District; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal grants, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. We will coordinate with you the electronic submission and certification. If applicable, we will provide copies of our report for you to include with the reporting package you will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits.

The workpapers for this engagement are the property of Richardson & Company, LLP and constitute confidential information. The workpapers for this or any engagement for you will be retained for a minimum of seven years after the date the auditor's report is issued, or longer if required by generally accepted auditing standards. The firm will make available its workpapers and respond to all reasonable inquiries of successor auditors and others to review workpapers of the District, upon the District's written request or consent. Access to such workpapers will be provided under the supervision of Richardson & Company personnel at a location designated by our Firm. Furthermore, upon your request or consent, we may provide photocopies of selected workpapers to the successor auditors or others. All professional and administrative services and expenses relating to such access will be charged as an additional expense to the District.

In the event we are requested or authorized by you or required by government regulation, subpoena, or other legal process to produce our workpapers or our personnel to respond to inquiries or serve as witnesses with respect to this or any engagement for you, you will, reimburse us for our professional time and expenses, as well as the fees and expenses of our

counsel, in responding to such a request. If such a request is made, and unless we are obligated by law or legal process to the contrary, we will inform you prior to providing such access.

If the District intends to publish or otherwise reproduce in any document our report on the District's financial statements, or otherwise make reference to our Firm in a document that contains other information in addition to the audited financial statements (e.g., in a debt offering circular for example), the District agrees that prior to making any such use of our report, or reference to our Firm, management will provide us with a draft of the document to read and obtain our approval for the inclusion or incorporation by reference of our report, or the reference to our Firm, in such document before the document is printed and distributed. The inclusion or incorporation by reference of our report in any such document would constitute the reissuance of our report and any request by the District to reissue our report or to consent to its inclusion or incorporation by reference in an offering or other document will be considered based on the facts and circumstances existing at the time of such request. The estimated fees outlined herein do not include any services that would need to be performed in connection with any such request to make use of our report, or reference to our Firm; fees for such services would be based upon the rates for additional services as described in the Professional Fees section of this letter.

With regard to the electronic dissemination of audited financial statements, including financial statements published electronically on your Internet website, if applicable, you understand that electronic sites are a means to distributed information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Our Firm, as well as all other accounting firms with a significant audit practice, participates in a "peer review" program, covering our audit and accounting practices. This program requires that once every three years we subject our quality assurance practices to an examination by another accounting firm. As part of the process, the other firm will review a sample of our work. It is possible that the work we perform for you may be selected by the other firm for their review. If it is, they are bound by professional standards to keep all information confidential. If you object to having the work we do for you reviewed by our peer reviewer, please notify us.

Ingrid Sheipline will serve as the engagement partner and is responsible for supervising the engagement and may sign the auditor's reports or authorize another individual to sign them.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our current peer review report accompanies this letter.

Professional Fees

Our total not-to-exceed cost for the year ended December 31, 2017 is as follows:

| | |
|---------------------------------------------------------------------------|------------------|
| Financial Audit | \$ 33,900 |
| Additional fee for auditing net pension liability and related disclosures | 1,020 |
| Single Audit, one major program | 4,250 |
| Additional Procedures | <u>6,370</u> |
| Total | <u>\$ 45,540</u> |

The fees quoted include ten hours per year for occasional consultation with auditing and tax staff regarding accounting, sales tax, arbitrage liabilities or other issues that might arise at the District during the year.

Changes in Scope That Could Result in a New Fee Arrangement: In the event that the scope of the audit increases due to changes in accounting or auditing pronouncements and standards, laws or regulations, material weaknesses in the internal control environment, the loss of key accounting personnel or significant changes in the scope of the District's operations, we will discuss the situation with you and arrive at a new mutually agreed upon fee arrangement.

Additional Services: The fee for additional services provided under this engagement letter or otherwise requested by the District, if any, will be based on a rate per hour by staff classification as follows:

| <u>Classification</u> | <u>Rate Per Hour</u> |
|--------------------------|----------------------|
| Partner | \$ 180 |
| Senior Manager | 120 |
| Managers and Supervisors | 110 |
| Seniors | 100 |
| Staff | 80 |

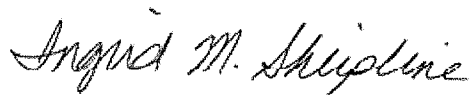
If any provision in this letter is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions will nevertheless continue in full force without being impaired or invalidated in any way.

Sacramento Suburban Water District
July 12, 2017
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We appreciate the opportunity to be of service to the District and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know.

Very truly yours,

RICHARDSON & COMPANY, LLP



Ingrid Sheipline, CPA
Managing Partner

Response:

This letter correctly sets forth the understanding of the Sacramento Suburban Water District and is signed by the officer authorized by the Board of Directors to enter into this agreement on the District's behalf.

By: _____ Title: _____

Date: _____



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System Review Report

July 15, 2015

To the Partners of
Richardson & Company, LLP
and the Peer Review Committee of the California Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of **Richardson & Company, LLP** (the firm) in effect for the year ended March 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of **Richardson & Company, LLP** in effect for the year ended March 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. **Richardson & Company, LLP** has received a peer review rating of *pass*.

Davis Kinard & Co, PC

Certified Public Accountants

EXHIBIT 2

SACRAMENTO SUBURBAN WATER DISTRICT SERVICES AGREEMENT

THIS AGREEMENT is entered into as of the date last signed and dated below by and between Sacramento Suburban Water District, a local government agency ("District"), and Richardson & Company, LLP, a public accounting firm ("Contractor"), who agree as follows:

1. Scope of Work. Contractor shall perform the work and render the services described in the attached Exhibit A (the "Work"). Contractor shall provide all labor, services, equipment, tools, material and supplies required or necessary to properly, competently and completely perform the Work. Contractor shall determine the method, details and means of doing the Work.

2. Payment.

a. District shall pay to Contractor a fee based on:

The fee arrangement described on the attached Exhibit A.

The total fee for the Work shall not exceed \$45,540.00. There shall be no compensation for extra or additional work or services by Contractor unless approved in advance in writing by District. Contractor's fee includes all of Contractor's costs and expenses related to the Work.

b. At the end of each month, Contractor shall submit to District an invoice for the Work performed during the preceding month. The invoice shall include a brief description of the Work performed, the dates of Work, number of hours worked and by whom (if payment is based on time), payment due, and an itemization of any reimbursable expenditures. If the Work is satisfactorily completed and the invoice is accurately computed, District shall pay the invoice within 30 days of its receipt.

3. Term.

a. This Agreement shall take effect on the above date and continue in effect until completion of the Work, unless sooner terminated as provided below. Time is of the essence in this Agreement. If Exhibit A includes a Work schedule or deadline, then Contractor must complete the Work in accordance with the specified schedule or deadline, which may be extended by District for good cause shown by Contractor. If Exhibit A does not include a Work schedule or deadline, then Contractor must perform the Work diligently and as expeditiously as possible, consistent with the professional skill and care appropriate for the orderly progress of the Work.

b. This Agreement may be terminated at any time by District upon 10 days advance written notice to Contractor. In the event of such termination, Contractor shall be fairly compensated for all work performed to the date of termination as calculated by District based on the above fee and payment provisions. Compensation under this subsection shall not include any termination-related expenses, cancellation or demobilization charges, or

EXHIBIT 2

lost profit associated with the expected completion of the Work or other such similar payments relating to Contractor's claimed benefit of the bargain.

4. Professional Ability of Contractor. Contractor represents that it is specially trained and experienced, and possesses the skill, ability, knowledge and certification, to competently perform the Work provided by this Agreement. District has relied upon Contractor's training, experience, skill, ability, knowledge and certification as a material inducement to enter into this Agreement. All Work performed by Contractor shall be in accordance with applicable legal requirements and meet the standard of care and quality ordinarily to be expected of competent professionals in Contractor's field.

5. Conflict of Interest. Contractor (including principals, associates and professional employees) represents and acknowledges that (a) it does not now have and shall not acquire any direct or indirect investment, interest in real property or source of income that would be affected in any manner or degree by the performance of Contractor's services under this agreement, and (b) no person having any such interest shall perform any portion of the Work. The parties agree that Contractor is not a designated employee within the meaning of the Political Reform Act and District's conflict of interest code because Contractor will perform the Work independent of the control and direction of the District or of any District official, other than normal contract monitoring, and Contractor possesses no authority with respect to any District decision beyond the rendition of information, advice, recommendation or counsel.

6. Contractor Records.

a. Contractor shall keep and maintain all ledgers, books of account, invoices, vouchers, canceled checks, and other records and documents evidencing or relating to the Work and invoice preparation and support for a minimum period of three years (or for any longer period required by law) from the date of final payment to Contractor under this Agreement. District may inspect and audit such books and records, including source documents, to verify all charges, payments and reimbursable costs under this Agreement.

b. In accordance with California Government Code section 8546.7, the parties acknowledge that this Agreement, and performance and payments under it, are subject to examination and audit by the California State Auditor for three years following final payment under the Agreement.

7. Ownership of Documents. All works of authorship and every report, study, spreadsheet, worksheet, plan, design, blueprint, specification, drawing, map, photograph, computer model, computer disk, magnetic tape, CAD data file, computer software and any other document or thing prepared, developed or created by Contractor under this Agreement and provided to District ("Work Product") shall be the property of District, and District shall have the rights to use, modify, reuse, reproduce, publish, display, broadcast and distribute the Work Product and to prepare derivative and additional documents or works based on the Work Product without further compensation to Contractor or any other party. Contractor may retain a copy of any Work Product and use, reproduce, publish, display, broadcast and distribute any Work Product and prepare derivative and additional documents or works based on any Work Product; provided, however, that Contractor shall not provide any Work Product to any third party without District's prior written approval,

EXHIBIT 2

unless compelled to do so by legal process. If any Work Product is copyrightable, Contractor may copyright the same, except that, as to any Work Product that is copyrighted by Contractor, District reserves a royalty-free, nonexclusive and irrevocable license to use, reuse, reproduce, publish, display, broadcast and distribute the Work Product and to prepare derivative and additional documents or works based on the Work Product. If District reuses or modifies any Work Product for a use or purpose other than that intended by the scope of work under this Agreement, then District shall hold Contractor harmless against all claims, damages, losses and expenses arising from such reuse or modification. For any Work Product provided to District in paper format, upon request by District at any time (including, but not limited to, at expiration or termination of this Agreement), Contractor agrees to provide the Work Product to District in a readable, transferable and usable electronic format generally acknowledged as being an industry-standard format for information exchange between computers (e.g., Word file, Excel spreadsheet file, AutoCAD file).

8. Confidentiality of Information.

a. Contractor shall keep in strict confidence all confidential, privileged, trade secret, and proprietary information, data and other materials in any format generated, used or obtained by the District or created by Contractor in connection with the performance of the Work under this Agreement (the "Confidential Material"). Contractor shall not use any Confidential Material for any purpose other than the performance of the Work under this Agreement, unless otherwise authorized in writing by District. Contractor also shall not disclose any Confidential Material to any person or entity not connected with the performance of the Work under this Agreement, unless otherwise authorized in advance in writing by District. If there is a question if Confidential Material is protected from disclosure or is a public record or in the public domain, the party considering disclosure of such materials shall consult with the other party concerning the proposed disclosure.

b. Contractor, and its officers, employees, agents, and subcontractors, shall at all times take all steps that are necessary to protect and preserve all Confidential Material. At no time shall Contractor, or its officers, employees, agents, or subcontractors in any manner, either directly or indirectly, use for personal benefit or divulge, disclose, or communicate in any manner, any Confidential Material to any person or entity unless specifically authorized in writing by the Agency or by order of a court or regulatory entity with jurisdiction over the matter. Contractor, and its officers, employees, agents, and subcontractors shall protect the Confidential Material and treat it as strictly confidential in accordance with applicable law, District policies and directives, and best industry security practices and standards.

c. If any person or entity, other than District or Contractor, requests or demands, by subpoena, discovery request, California Public Records Act request or otherwise, Confidential Material or its contents, the party to whom the request is made will immediately notify the other party, so that the parties may collectively consider appropriate steps to protect the disclosure of those materials. The parties agree to take all steps reasonably necessary to preserve the confidential and privileged nature of the Confidential Material and its content. In the event that the parties cannot agree whether to oppose or comply with a disclosure demand, the opposing party may oppose the demand at its sole cost and expense, in which event the party favoring disclosure will refrain from disclosing

EXHIBIT 2

the demanded Confidential Material until such time as a final agreement regarding disclosure is reached or, if an agreement is not reached, a judicial determination is made concerning the demand.

d. Unless otherwise directed in writing by the District, upon contract completion or termination, Contractor must destroy all Confidential Materials (written, printed and/or electronic) and shall provide a written statement to the District that such materials have been destroyed.

9. Compliance with Laws.

a. General. Contractor shall perform the Work in compliance with all applicable federal, state and local laws and regulations. Contractor shall possess, maintain and comply with all federal, state and local permits, licenses and certificates that may be required for it to perform the Work. Contractor shall comply with all federal, state and local air pollution control laws and regulations applicable to the Contractor and its Work (as required by California Code of Regulations title 13, section 2022.1). Contractor shall be responsible for the safety of its workers and Contractor shall comply with applicable federal and state worker safety-related laws and regulations.

b. Pre- and Post-Construction Related Work.

(1) Applicability. This subsection (b) applies if the Work includes labor performed during the design and pre-construction phases of construction, including, but not limited to, inspection and land surveying work, and labor performed during the post-construction phases of construction, including, but not limited to, cleanup work at the jobsite. (See California Labor Code section 1720(a).) If the Work includes some labor as described in the preceding sentence and other labor that is not, then this subsection (b) applies only to workers performing the pre-construction and post-construction work.

(2) Contractor shall comply with the California Labor Code provisions concerning payment of prevailing wage rates, penalties, employment of apprentices, hours of work and overtime, keeping and retention of payroll records, and other requirements applicable to public works as may be required by the Labor Code and applicable state regulations. (See California Labor Code division 2, part 7, chapter 1 (sections 1720-1861), which is incorporated in this Agreement by this reference.) The state-approved prevailing rates of per diem wages are available at <http://www.dir.ca.gov/oprl/DPreWageDetermination.htm>. Contractor also shall comply with Labor Code sections 1775 and 1813, including provisions that require Contractor to (a) forfeit as a penalty to District up to \$200 for each calendar day or portion thereof for each worker (whether employed by Contractor or any subcontractor) paid less than the applicable prevailing wage rates for any labor done under this Agreement in violation of the Labor Code, (b) pay to each worker the difference between the prevailing wage rate and the amount paid to each worker for each calendar day or portion thereof for which the worker was paid less than the prevailing wage, and (c) forfeit as a penalty to District the sum of \$25 for each worker (whether employed by Contractor or any subcontractor) for each calendar day during which the worker is required or permitted to work more than 8 hours in any one day and 40 hours in any one calendar week in violation of Labor Code sections 1810 through 1815.

EXHIBIT 2

c. Maintenance of Public Facility, Plant or Structure.

(1) Applicability. This subsection (c) applies if the Work includes "maintenance" work. "Maintenance" means (a) routine, recurring and usual work for the preservation, protection and keeping of any District facility, plant, building, structure, utility system or other property ("District Facility") in a safe and continually usable condition, (b) carpentry, electrical, plumbing, glazing, touchup painting, and other craft work designed to preserve any District Facility in a safe, efficient and continuously usable condition, including repairs, cleaning and other operations on District machinery and equipment, and (c) landscape maintenance. "Maintenance" excludes (a) janitorial or custodial services of a routine, recurring or usual nature, and (b) security, guard or other protection-related services. (See California Labor Code section 1771 and 8 California Code of Regulations section 16000.) If the Work includes some "maintenance" work and other work that is not "maintenance," then this subsection (c) applies only to workers performing the "maintenance" work.

(2) Contractor shall comply with the California Labor Code provisions concerning payment of prevailing wage rates, penalties, keeping and retention of payroll records, and other prevailing wage and related requirements as may be required by the Labor Code section 1771 and applicable state regulations. The state-approved prevailing rates of per diem wages are available at <http://www.dir.ca.gov/oprl/DPreWageDetermination.htm>. Contractor also shall comply with Labor Code section 1775, including provisions that require Contractor to (a) forfeit as a penalty to District up to \$200 for each calendar day or portion thereof for each worker (whether employed by Contractor or any subcontractor) paid less than the applicable prevailing wage rates for any Work done under this Agreement in violation of the Labor Code, and (b) pay to each worker the difference between the prevailing wage rate and the amount paid to each worker for each calendar day or portion thereof for which the worker was paid less than the prevailing wage.

Indemnification. Contractor shall indemnify, defend, protect, and hold harmless District, and its officers, employees and agents from and against any claims, liability, losses, damages and expenses (including attorney, expert witness and Contractor fees, and litigation costs) that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of Contractor or its employees, agents or subcontractors. The duty to indemnify, including the duty and the cost to defend, is limited as provided in this section. However, this indemnity provision will not apply to any claims, liability, losses, damages and expenses arising from the sole negligence or willful misconduct of District or its employees or agents. Contractor's obligations under this indemnification provision shall survive the termination of, or completion of Work under, this Agreement.

10. Insurance.

Types & Limits. Contractor at its sole cost and expense shall procure and maintain for the duration of this Agreement the following types and limits of insurance:

| <i>Type</i> | <i>Limits</i> | <i>Scope</i> |
|------------------------------|----------------------------|----------------------------------|
| Commercial general liability | \$1,000,000 per occurrence | at least as broad as ISO CG 0001 |
| Automobile liability | \$1,000,000 per accident | at least as broad as ISO CA |

EXHIBIT 2

| | | |
|-------------------------|--------------------------|-------------------------|
| | | 0001, code 1 (any auto) |
| Workers' compensation | Statutory limits | |
| Employers' liability | \$1,000,000 per accident | |
| Professional liability* | \$1,000,000 per claim | |

*Required only if Contractor is a licensed engineer, land surveyor, geologist, architect, doctor or attorney.

a. **Other Requirements.** The general and automobile liability policy(ies) shall be endorsed to name District, its officers, employees, volunteers and agents as additional insureds regarding liability arising out of the Work. Contractor's coverage shall be primary and apply separately to each insurer against whom claim is made or suit is brought, except with respect to the limits of the insurer's liability. District's insurance or self-insurance, if any, shall be excess and shall not contribute with Contractor's insurance. Each insurance policy shall be endorsed to state that coverage shall not be canceled, except after 30 days (10 days for non-payment of premium) prior written notice to District. Insurance is to be placed with admitted insurers with a current A.M. Best's rating of A:VII or better unless otherwise acceptable to District. Workers' compensation insurance issued by the State Compensation Insurance Fund is acceptable. Contractor agrees to waive subrogation that any insurer may acquire from Contractor by virtue of the payment of any loss relating to the Work. Contractor agrees to obtain any endorsement that may be necessary to implement this subrogation waiver. The workers' compensation policy must be endorsed to contain a subrogation waiver in favor of District for the Work performed by Contractor.

b. **Proof of Insurance.** Upon request, Contractor shall provide to District the following proof of insurance: (a) certificate(s) of insurance evidencing this insurance; and (b) endorsement(s) on ISO Form CG 2010 (or insurer's equivalent), signed by a person authorized to bind coverage on behalf of the insurer(s), and certifying the additional insured coverage.

11. Entire Agreement; Amendment. The parties intend this writing to be the sole, final, complete, exclusive and integrated expression and statement of the terms of their contract concerning the Work. This Agreement supersedes all prior oral or written negotiations, representations, contracts or other documents that may be related to the Work, except those other documents (if any) that are expressly referenced in this Agreement. This Agreement may be amended only by a subsequent written contract approved and signed by both parties.

12. Independent Contractor. Contractor's relationship to District is that of an independent contractor. All persons hired by Contractor and performing the Work shall be Contractor's employees or agents. Contractor and its officers, employees and agents are not District employees, and they are not entitled to District employment salary, wages or benefits. Contractor shall pay, and District shall not be responsible in any way for, the salary, wages, workers' compensation, unemployment insurance, disability insurance, tax withholding, and benefits to and on behalf of Contractor's employees. Contractor shall, to the fullest extent permitted by law, indemnify District, and its officers, employees, volunteers and agents from and against any and all liability, penalties, expenses and costs

EXHIBIT 2

resulting from any adverse determination by the federal Internal Revenue Service, California Franchise Tax Board, other federal or state agency, or court concerning Contractor's independent contractor status or employment-related liability.

13. Subcontractors. No subcontract shall be awarded nor any subcontractor engaged by Contractor without District's prior written approval. Contractor shall be responsible for requiring and confirming that each approved subcontractor meets the minimum insurance requirements specified in Section 11 of this Agreement. Any approved subcontractor shall obtain the required insurance coverages and provide proof of same to District in the manner provided in Section 11 of this Agreement.

14. Assignment. This Agreement and all rights and obligations under it are personal to the parties. The Agreement may not be transferred, assigned, delegated or subcontracted in whole or in part, whether by assignment, subcontract, merger, operation of law or otherwise, by either party without the prior written consent of the other party. Any transfer, assignment, delegation, or subcontract in violation of this provision is null and void and grounds for the other party to terminate the Agreement.

15. No Waiver of Rights. Any waiver at any time by either party of its rights as to a breach or default of this Agreement shall not be deemed to be a waiver as to any other breach or default. No payment by District to Contractor shall be considered or construed to be an approval or acceptance of any Work or a waiver of any breach or default.

16. Severability. If any part of this Agreement is held to be void, invalid, illegal or unenforceable, then the remaining parts will continue in full force and effect and be fully binding, provided that each party still receives the benefits of this Agreement.

17. Governing Law and Venue. This Agreement will be governed by and construed in accordance with the laws of the State of California. The county and federal district court where District's office is located shall be venue for any state and federal court litigation concerning the enforcement or construction of this Agreement.

18. Notice. Any notice, demand, invoice or other communication required or permitted to be given under this Agreement must be in writing and delivered either (a) in person, (b) by prepaid, first class U.S. mail, (c) by a nationally-recognized commercial overnight courier service that guarantees next day delivery and provides a receipt, or (d) by email with confirmed receipt. Such notices, etc. shall be addressed as follows:

District:

Sacramento Suburban Water District
Attn: Dan Bills
3701 Marconi Avenue, Suite 100
Sacramento, CA 95821-5346
E-mail: dbills@sswd.org

Contractor:

Richardson & Company, LLP
Attn: Ingrid Sheipline
550 Howe Avenue, Suite 210
Sacramento, CA 95825
E-mail: isheipline@richardsoncpas.com

Notice given as above will be deemed given (a) when delivered in person, (b) three days after deposited in prepaid, first class U.S. mail, (c) on the date of delivery as shown on the overnight courier service receipt, or (d) upon the sender's receipt of an email from the other

EXHIBIT 2

party confirming the delivery of the notice, etc. Any party may change its contact information by notifying the other party of the change in the manner provided above.

19. Signature Authority. Each party warrants that the person signing this Agreement is authorized to act on behalf of the party for whom that person signs. The Parties may execute and deliver this Agreement and documents necessary to perform it, including task orders and amendments, in any number of original or facsimile counterparts. When each Party has signed and delivered at least one counterpart to the other Party, each counterpart shall be deemed an original and, taken together, the counterparts shall constitute one and the same document, which shall be binding and effective.

SACRAMENTO SUBURBAN WATER DISTRICT:

Dated: _____

By: _____
Kevin M. Thomas
Chair, Finance and Audit Committee

RICHARDSON & COMPANY, LLP:

Dated: _____

By: _____
Ingrid Sheipline
Managing Partner



Agenda Item: 2

Date: September 27, 2017

Subject: Letter of Credit Extension with Sumitomo Mitsui Banking Corporation

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

1. Authorize the General Manager to:
 - a. Recommend the Irrevocable Direct-Pay Letter of Credit (LOC) 5-Year Extension offer from Sumitomo Mitsui Banking Corporation (SMBC), to include extending the LOC expiration term to 2022 and facility fees at no more than 48 basis points per annum (see Exhibit 2) and the draft legal documents (Exhibits 3 and 4), to the full Board for approval at the October 16, 2017, regularly scheduled Board meeting.
 - b. Approve the District's Financial Advisor's, Fieldman, Rolapp & Associates, Bond Counsel, Stradling, Yocca, Carlson & Rauth and General Counsel, to complete all legal documents and resolutions in substantially final form, recognizing upfront costs are estimated to be approximately \$35,000.

Discussion:

As authorized by the Board in July 2017, the District's Financing Team has completed their review of the LOC Extension offer from SMBC and legal counsel has prepared draft legal documents that are in process of review (Exhibits 3 and 4). As the Committee will recall, SMBC offered the District three alternatives in extending the LOC – 1) a 3 year renewal at the current rate of 45 basis points (bps) per annum; 2) a 4 year renewal at the current rate of 45 bps per annum; and 3) a 5 year renewal at the rate of 48 bps per annum. Staff and the District's Financial Advisor recommend the 5-year extension option.

In December 2004, the District issued \$42 million of variable-rate debt (Series 2009A) primarily for the purpose of constructing surface water infrastructure assets in the District's South Service Area (SSA). In the municipal financial markets, variable-rate debt often trades poorly due to the limited number of potential investors and the liquidity concerns of such investors. Accordingly, investors require that municipal debt be liquid (i.e., available/willing buyers) before they will purchase the securities. Variable-rate debt meets this test in two ways – 1) rates are reset and sale eligibility is executed weekly, and 2) when accompanied by a LOC, a willing buyer is always available.

The District currently has a LOC on its variable-rate debt (Series 2009A) with SMBC. The LOC’s term will expire on June 30, 2018. The District currently pays SMBC a Facility-Fee for the LOC of 45 bps per annum (plus an interest component) or roughly \$191,500 per year. After discussion, SMBC has offered to extend the term of the LOC an additional 3 to 5 years at very reasonable rates. Staff is pleased with such favorable offers and desires to bring the recommended offer before the Board for approval at the October regularly scheduled Board meeting. Please see Exhibit 2 for specific terms of the offer and the District’s Financial Advisor’s analysis and recommendation of the alternative proposals.

Staff and the District’s Financial Advisor both recommend the 5-year extension offer. This recommendation is based on an analysis of the 4-year extension option versus the 5-year option. In comparing these two offers, the following analysis is instructive:

LOC Analysis Table / Scenarios Summary

| Alternatives Summary | | LOC Fee 1 | LOC Fee 2 | Annual LOC Costs¹ | Scenario Total Upfront Costs² | Total LOC and Upfront Costs (5 year period) | NPV Cost Difference v. Alternative #1 |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------|------------------|-------------------------------------|-------------------------------------------------|----------------------------------------------------|----------------------------------------------|
| #1 | 5 Year Extension at 48 bps | 0.48% | NA | \$204,353 | \$35,000 | \$1,056,763 | NA |
| #2 | 4 Year at 45 bps + Extension (no change) | 0.45% | 0.45% | \$191,581 | \$55,000 | \$1,012,903 | \$42,564 |
| #3 | 4 Year at 45 bps + Extension (breakeven) | 0.45% | 0.53% | \$200,539 | \$55,000 | \$1,057,694 | (\$0) |
| #4 | 4 Year at 45 bps + Extension (Best Case) | 0.45% | 0.50% | \$196,902 | \$55,000 | \$1,039,511 | \$17,279 |
| #5 | 4 Year at 45 bps + Extension (Worst Case) | 0.45% | 0.60% | \$207,546 | \$55,000 | \$1,092,728 | (\$33,292) |
| Notes | | | | | | | |
| 1 5 year period average. Does not include upfront fees. | | | | | | | |
| 2 Scenarios #2 thru #5 included a concept of pro-rating the \$35,000 total upfront costs on the LOC Extension in Year 4. | | | | | | | |

The Table above shows the 5-year option costs as Alternative #1. The other alternatives (#2 - #5) show what LOC fees may possibly be 4 years from now. In essence these alternatives demonstrate, if the LOC fee 4 years from now is expected to be 53 bps or more, it makes sense to go with the 5-year alternative. Conversely, if the District believes the renewal fee in 4 years will be less than 53 bps then the 4-year option makes sense. While there is no way to predict such future fees, staff and the Financial Advisors would point to the following empirical evidence – 1) no banks are currently cutting their LOC fees, which may indicate a low in pricing, 2) SMBC is expecting fees to rise in the future as evidence by the 48 bps offer for the 5 year option versus the 3- and 4-year offers of 45 bps, 3) SMBC is still scarce in the money markets and is better able to be held in investor portfolios than more common issuers, and 4) the District continues to trade through the government bond curves (SIFMA).

By accepting the 5 year offer, the District expects the following:

1. LOC Term Expiration – November 1, 2022.
2. LOC Facility-Fee – 48 bps per annum or roughly \$204,400 per year.
3. Term Cost Increase – \$42,564 (compared to 4 Year Offer of 45 bps and assuming renewal rate in 4 years is also 45 bps).
4. Risk to the District – Financial viability of SMBC and Wells Fargo

a. SMBC's and Wells Fargo's Current Credit Ratings are:

| | For Comparative Purposes | | | |
|------------------------------|--------------------------|------------|-------------|------------|
| | SMBC | | Wells Fargo | |
| | Long-term | Short-term | Long-term | Short-term |
| Moody's | A1 | P-1 | Aa2 | P-1 |
| Standard & Poor's | A | A-1 | AA- | A-1+ |
| Fitch Ratings | A | F1 | AA | F1+ |

Attached to this staff report are a series of explanatory PowerPoint slides (Exhibit 1), a letter of recommendation from the District's Financial Advisor - Fieldman, Rolapp & Associates (Exhibit 2), a draft of Amendment No. 1 to the Fee Letter Agreement (Exhibit 3), and a draft of Amendment No. 3 to the Reimbursement Agreement (Exhibit 4).

Fiscal Impact:

Upfront costs are estimated at \$35,000. Estimated cost increase of roughly \$9,000 per year.

Strategic Plan Alignment:

Finance - 4.F. Monitor the District's debt portfolio to manage debt risk and minimize District costs.



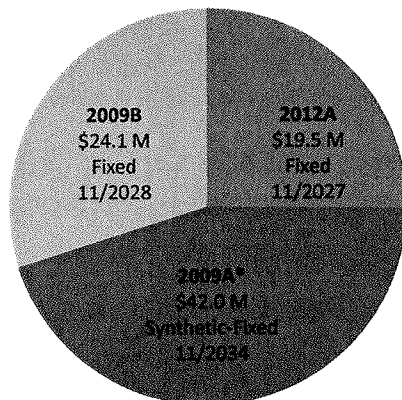
EXHIBIT 1 Proposed LOC Extension

Finance & Audit Committee

October 2, 2017

DISTRICT DEBT TODAY

Total Debt - \$85.6 M



* Interest Rate Swap

- Notional: \$33.3 M
- Termination: 11/2034
- Market Value: **\$7.3 M**
- **Current LOC Terms:**
- Expires 06/30/18
- Fee 45 bps/annum
- \$191,500/year

SWAP

WHAT:

In a typical swap, two parties agree to exchange different forms of interest rates for a defined period

Typically, one party pays fixed and the other pays floating

WHY:

Savings: Provide substantially better economic results than those available in the conventional bond market

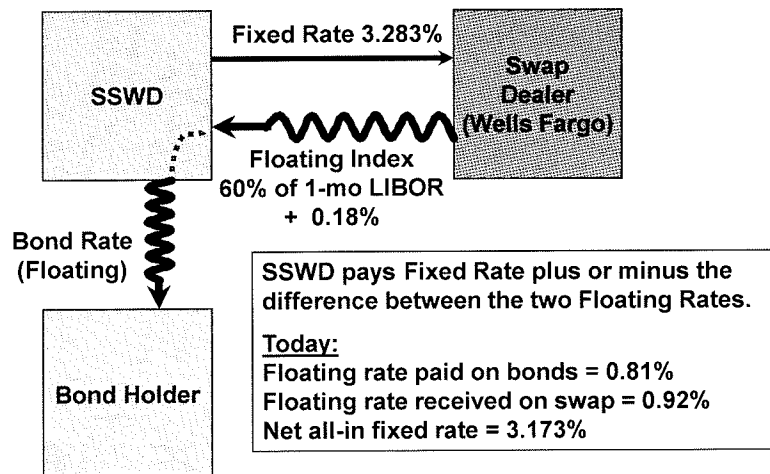
Hedging: Convert floating rate exposure, with unknown cost, to fixed rate exposure

Speed: Take advantage of market opportunities more swiftly than in public bond markets

SSWD EXECUTED ORIGINAL SWAP (April 2005) DUE TO:

- Fixed rate bond rate (all-in): 4.30%
- Swap rate: 3.283% (+/- floating rate differential)

SSWD's SWAP



LETTER OF CREDIT (LOC)

WHAT:

Credit and Liquidity support from a bank guaranteeing a buyer for the security

WHY:

Fixed rate municipal bonds often trade poorly as they are relatively illiquid and the investor base is small

LOC EXTENSION TERMS

- **Current Terms:**
 - Provider: Sumitomo Mitsui Banking Corporation (SMBC)
 - Expiration: June 30, 2018
 - Current Fee: 45 bps or \$191,500 annually
- **Extension Offer:**
 - Provider: SMBC
 - Expiration: November 1, 2022
 - Proposed Fee: 48 bps or \$204,400 annually
- **SMBC' - "Scarcity Factor"**

LOC EXTENSION TERMS (cont)

- **Transaction Details:**
 - Issuance Costs ~ \$35,000 (legal, financial advisors, etc.)
 - Net Cost Increase over 5 years ~ \$42,564
 - (Assumes rate on June 30, 2018 is still 45 bps)
- **Alternative:**
 - 3 or 4 Years
 - 45 bps or \$191,500 annually
 - If fee is >53 bps in 4 years, better to take 5 year offer

LOC EXTENSION TERMS (cont)

- **Current Credit Ratings:**

For Comparative
Purposes

| | SMBC | | Wells Fargo | |
|-------------------|-----------|------------|-------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Moody's | A1 | P-1 | Aa2 | P-1 |
| Standard & Poor's | A | A-1 | AA- | A-1+ |
| Fitch Ratings | A | F1 | AA | F1+ |

RECOMMENDATION & TIMING

- **Recommendation:**
 - Recommend the Irrevocable Direct-Pay Letter of Credit (LOC) 5-Year Extension offer from Sumitomo Mitsui Banking Corporation (SMBC), to include extending the LOC expiration term to 2022 and facility fees at no more than 48 basis points per annum and the draft legal documents, to the full Board for approval at the October 16, 2017, regularly scheduled Board meeting.
 - Approve the District's Financial Advisor's, Fieldman, Rolapp & Associates, Bond Counsel, Stradling, Yocca, Carlson & Rauth and General Counsel, to complete all legal documents and resolutions in substantially final form, recognizing upfront costs are estimated to be approximately \$35,000.

- **Timing:**
 - October 16 – Board Approval
 - November 1 – Effective Date of LOC Extension

[EXHIBIT 2]

To: Sacramento Suburban Water District

From: Robert Porr, Senior Vice President and Paul Pender, Vice President
Fieldman, Rolapp & Associates (Municipal Advisor)

Re: Letter of Credit Supporting District's 2009A Certificates

Date: September 25, 2017

The District has \$42 million of 2009A Certificates of Participation (COPs) outstanding, which pay a variable rate of interest (reset weekly). To facilitate this structure, the COPs must have a letter of credit (LOC) facility in place to provide investors a source of liquidity and assurance interest will be paid timely. The District currently has such a facility in place from Sumitomo Mitsui Banking Corporation, which is scheduled to expire on June 30, 2018. The District intends to address the upcoming expiration in 2017.

The Sumitomo facility currently costs approximately \$191,500 in annual fees per year, or 45 basis points of the outstanding COPs (plus an interest component). Since the Sumitomo facility was extended at this price in 2015, the pricing for such facilities has been stable but has increased slightly overall. Several banks are no longer seeking new such business or are opting not to extend existing facilities, reducing the supply of providers. New bank regulations as well as uncertainty over additional future regulations are cited as reasons pricing is under pressure and may increase in the future.

The District has been provided two term and price options from Sumitomo to extend the LOC: a 4-year term at a cost of 45 basis points and a 5-year term at a cost of 48 basis points. Either extension option would also require upfront costs estimated at \$35,000.

Analysis of 4 and 5-year term Options

Fundamentally, the District faces a choice paying a higher fee level to gain an extra year of LOC pricing certainty. The 4-year option offers a lower price for the next 4 years, but involves taking risk on where pricing will be in 4 years. The 5-year option provides an extra year of price certainty, and the benefit of deferring out by one year the next required action and related upfront fees and staff time.

To assist the District in comparing the 4-year and 5-year options, we have run several scenarios to gauge the potential benefits and risks. The analysis considers the 5-year option as the base case, since its costs are locked in for 5 years. The analysis then calculates the benefit or cost of going with the 4-year option under different scenarios of where LOC pricing will be in 4 years. The table on the next page shows the scenarios and results.

LOC Analysis Table / Scenarios Summary

| Alternatives Summary | | LOC Fee 1 | LOC Fee 2 | Annual LOC Costs ¹ | Scenario Total Upfront Costs ² | Total LOC and Upfront Costs (5 year period) | 4 Year LOC NPV Benefit or (Cost) v. 5 Year LOC |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------|-----------|-------------------------------|-------------------------------------------|---------------------------------------------|------------------------------------------------|
| #1 | 5 Year Extension at 48 bps | 0.48% | NA | \$204,353 | \$35,000 | \$1,056,763 | NA |
| #2 | 4 Year at 45 bps + Extension (no change) | 0.45% | 0.45% | \$191,581 | \$55,000 | \$1,012,903 | \$42,564 |
| #3 | 4 Year at 45 bps + Extension (breakeven) | 0.45% | 0.53% | \$200,539 | \$55,000 | \$1,057,694 | (\$0) |
| #4 | 4 Year at 45 bps + Extension (Best Case) | 0.45% | 0.50% | \$196,902 | \$55,000 | \$1,039,511 | \$17,279 |
| #5 | 4 Year at 45 bps + Extension (Worst Case) | 0.45% | 0.60% | \$207,546 | \$55,000 | \$1,092,728 | (\$33,292) |
| Notes | | | | | | | |
| 1 5 year period average. Does not include upfront fees. | | | | | | | |
| 2 Scenarios #2 thru #5 included a concept of pro-rating the \$35,000 total upfront costs on the LOC Extension in Year 4. | | | | | | | |

Scenario #2 indicates the hypothetical maximum upside of \$42,500 if the District opts for the 4-year term and LOC pricing remains flat at 45 basis points 4 years from now. In our view, this scenario is we not probable given trends and pressures in bank pricing, but is provided for illustrative purposes.

Scenario #4 reflects our view of a probable “best case” upside for the District, which is that LOC fees increase to 0.50% 4 years from now. Under this scenario, the higher fees reduce the potential total District savings to \$17,200 (which amounts to \$3,400 per year). As shown in Scenario #3, the District would “breakeven” with no savings if rates increase to no more than 53 basis points.

A hypothetical “worse case” is Scenario #5, which assumes LOC fees increase to 60 basis points 4 years from now. We view this scenario as unlikely but more plausible than “no change.” Under this scenario, the District would have been better off opting for the 5-year term, and would lose \$33,300 (\$6,600 per year) by going with the 4-year option. Though seemingly a large price increase, this level is close where pricing was just 2-3 years ago (the District paid 57.5 basis points prior to 2015).

We believe the most probable range of savings the District could expect by opting for the 4-year LOC is \$0 - \$3,400 in savings per year (Scenarios #3 or #4). However, we would not rule out the potential for LOC costs increasing beyond the breakeven of 53 basis points 4 years from now, given recent trends in bank pricing and participation in this market. In our view, the 4-year term offers relatively limited savings upside given the risk / reward trade-offs shown in the analysis. We are therefore recommending the District pursue the 5-year extension with Sumitomo to lock in costs for an additional year.

Other Alternatives Considered – Alternate Bank Substitution

Alternately, the District could conduct a solicitation requesting bids for pricing from other banks. A substitute provider may be able to offer an annual price on the facility lower than 45-48 basis points. However, implementing a new facility requires a new bond offering document and related legal, rating agency, and other advisory and bank fees. We estimate these upfront costs to be approximately \$200,000, as opposed to \$35,000 to implement an extension with Sumitomo. With only 4-5 years to realize annual savings from an alternate bank facility, this upfront cost is significant. Our analysis indicates that a substitute facility would need to be priced at 30-32 basis points or lower

MEMORANDUM

to “breakeven” with the proposed Sumitomo pricing. Given we estimate the market for such facilities currently ranges from 40-55 basis points, we see no reason to pursue alternate bank proposals.

EXHIBIT 3

AMENDMENT NO. 1 TO FEE LETTER AGREEMENT

November 1, 2017

\$42,000,000
original aggregate principal amount of
Sacramento Suburban Water District
Adjustable Rate Refunding Revenue Certificates of Participation,
Series 2009A

Reference is hereby made to that certain Reimbursement Agreement, dated as of March 1, 2009 (the "Original Reimbursement Agreement"), between the Sacramento Suburban Water District (the "Applicant") and Sumitomo Mitsui Banking Corporation, acting through its New York Branch (the "Bank"), as amended by that certain Amendment No.1 to Reimbursement Agreement, dated April 19, 2012 (the "Reimbursement Agreement Amendment No. 1"), by and between the Applicant and the Bank and that certain Amendment No. 2 to Reimbursement Agreement, dated April 15, 2015 (the "Reimbursement Agreement Amendment No. 2"), by and between the Applicant and the Bank. The Original Reimbursement Agreement, as amended by the Reimbursement Agreement Amendment No.1 and the Reimbursement Agreement Amendment No.2, is hereinafter referred to as the "Second Amended Reimbursement Agreement" and the Second Amended Reimbursement Agreement, as amended by that certain Amendment No. 3 to Reimbursement Agreement, dated November 1, 2017 (the "Reimbursement Agreement Amendment No. 3"), between the Applicant and the Bank and as it may be further amended and supplemented from time to time, is hereinafter referred to as the "Reimbursement Agreement." This Amendment No.1 to Fee Letter Agreement (this "Amendment No. 1") amends that certain Fee Letter Agreement, dated April 15, 2015 (the "Original Fee Letter"), between the Applicant and the Bank. Terms used herein without definition shall have the meanings assigned in the Reimbursement Agreement.

Section 1. Authority and Definitions.

- (a) This Amendment No. 1 is entered into in compliance with the provisions of the Original Fee Letter.
- (b) This Amendment No. 1 amends the Original Fee Letter.
- (c) Capitalized terms used herein without definition shall have the meanings set forth in the Original Fee Letter.

(d) This Amendment No. 1 shall become effective upon the execution and delivery of this Amendment No. 1 by the Applicant and the Bank on November 1, 2017 (the “Second Extension Closing Date”).

(e) The provisions of this Amendment No. 1 shall supersede and prevail over any conflicting provisions of the Original Fee Letter. If there is any conflict between the terms, conditions and provisions of this Amendment No. 1 and those of any of the Related Documents, the terms, conditions and provisions of this Amendment No. 1, as applicable, shall prevail. Save and except as expressly amended hereby, all of the terms and provisions of the Original Fee Letter continue in full force and effect and are applicable to the provisions of this Amendment No. 1 and the obligations of the parties hereunder. Reference to this specific Amendment No. 1 need not be made in any note, document, agreement, letter, certificate, the Fee Letter or any communication issued or made subsequent to, or with respect to, the Fee Letter, it being hereby agreed that any reference to the Fee Letter shall be sufficient to refer to the Original Fee Letter as hereby amended. The parties hereto expressly agree that this Amendment No. 1 shall constitute a modification of the Original Fee Letter and does not constitute a novation or substitution with respect to the Original Fee Letter.

Section 2. Amendment of the Original Fee Letter.

(a) The first full paragraph and the chart following of Paragraph (a)(i) of the Original Fee Letter are hereby deleted in their entirety and the following substituted therefor:

(i) Facility Fees. The Applicant agreed to pay to the Bank, for the period commencing on the Closing Date and ending on April 18, 2012, a non-refundable fee as set forth in the Original Reimbursement Agreement. The Applicant agreed to pay to the Bank, for the period commencing on April 19, 2012 and ending on April 14, 2015, a non-refundable fee as set forth in the First Amended Reimbursement Agreement. The Applicant agreed to pay to the Bank, for the period commencing on April 15, 2015 and ending on October 31, 2017, a non-refundable fee as set forth in the First Amended Reimbursement Agreement, as amended by the Amendment No. 2 to Reimbursement Agreement, dated April 15, 2015, between the Applicant and the Bank (as so amended, the “Second Amended Reimbursement Agreement”), with such non-refundable fee for the period commencing on October 2, 2017 and ending on October 31, 2017, payable to the Bank in arrears on January 2, 2018. The Applicant agrees to pay to the Bank, in arrears on January 2, 2018 for the period commencing on November 1, 2017 and ending on January 1, 2018 and on the first Business Day of each April, July, October and January thereafter to the Termination Date, commencing April 1, 2018 (each, a “Quarterly Payment Date”) for the period from and including the immediately preceding Quarterly Payment Date to but not including such Quarterly Payment Date, and on the Termination Date, for the period from and including the immediately preceding Quarterly Payment Date to and including the Termination Date, a non-refundable fee in an amount equal to the rate per annum associated with the Rating as specified below (the “Facility Fee Rate” on the Gross Available Amount of the Letter of Credit (the “Facility Fees” for each day during each related period.

| Level | S&P Rating | Moody's Rating | Fitch Rating | Facility Fee Rate |
|---------|-------------|----------------|--------------|-------------------|
| Level 1 | A+ or above | A1 or above | A+ or above | 0.48% |
| Level 2 | A | A2 | A | 0.83% |
| Level 3 | A- | A3 | A- | 0.98% |
| Level 4 | BBB+ | Baa1 | BBB+ | 1.28% |
| Level 5 | BBB | Baa2 | BBB | 1.53% |
| Level 6 | BBB- | Baa3 | BBB- | 1.78% |
| Level 7 | Below BBB- | Below Baa3 | Below BBB- | 3.03% |

Section 6. Miscellaneous.

(a) No Waiver. The Applicant acknowledges and agrees that, if and to the extent that the Bank has not heretofore required strict compliance with the performance by the Applicant of the covenants, agreements and obligations of the Applicant under the Reimbursement Agreement or the Related Documents, such action or inaction shall not constitute a waiver of, or otherwise affect in any manner, the Bank's rights and remedies under the Reimbursement Agreement or the Related Documents, as amended hereby, including the right to require performance of such covenants, agreements and obligations strictly in accordance with the terms and provisions thereof.

(b) Severability. In case any one or more of the provisions contained in this Amendment No. 1 should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(c) Governing Law. This Amendment No. 1 shall be governed by, and construed in accordance with, the laws of the State of New York.

(c) Headings. The captions in this Amendment No. 1 are for convenience of reference only and shall not define or limit the provisions hereof.

(d) Counterparts. This Amendment No. 1 may be executed in counterparts, each of which shall constitute an original but all taken together to constitute one instrument.

(e) Entire Agreement. This Amendment No. 1 constitutes the entire understanding of the parties with respect to the subject matter hereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby. This Amendment No. 1 and the Original Fee Letter shall be construed as one agreement between the Applicant and the Bank and shall be governed by the provisions of the Original Fee Letter.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Applicant and the Bank have caused this Amendment No. 1 to Fee Letter Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

SACRAMENTO SUBURBAN WATER
DISTRICT

By: _____

Name: Robert S. Roscoe

Title: General Manager

SUMITOMO MITSUI BANKING
CORPORATION, acting through its New York
Branch

By: _____

Name: _____

Title: _____

EXHIBIT 4

AMENDMENT NO. 3 TO REIMBURSEMENT AGREEMENT

DATED November 1, 2017

BETWEEN

SACRAMENTO SUBURBAN WATER DISTRICT

AND

SUMITOMO MITSUI BANKING CORPORATION,
ACTING THROUGH ITS NEW YORK BRANCH

RELATING TO

\$42,000,000

original aggregate principal amount of
Sacramento Suburban Water District
Adjustable Rate Refunding Revenue Certificates of Participation,
Series 2009A

Amending that certain Reimbursement Agreement, dated as of March 1, 2009, as amended by that certain Amendment No. 1 to Reimbursement Agreement, dated April 19, 2012, and that certain Amendment No. 2 to Reimbursement Agreement, dated April 15, 2015, each between Sacramento Suburban Water District and Sumitomo Mitsui Banking Corporation, acting through its New York Branch

AMENDMENT No. 3 TO REIMBURSEMENT AGREEMENT

THIS AMENDMENT NO. 3 TO REIMBURSEMENT AGREEMENT is dated November 1, 2017 (this "Amendment No. 3"), by and between SACRAMENTO SUBURBAN WATER DISTRICT (the "Applicant") and SUMITOMO MITSUI BANKING CORPORATION, acting through its New York Branch (the "Bank"), amending that certain Reimbursement Agreement, dated as of March 1, 2009 (the "Original Reimbursement Agreement"), by and between the Applicant and the Bank, as amended by that certain Amendment No. 1 to Reimbursement Agreement, dated April 19, 2012 (the "Amendment No. 1"), by and between the Applicant and the Bank and that certain Amendment No. 2 to Reimbursement Agreement, dated April 15, 2015 (the "Amendment No. 2"), by and between the Applicant and the Bank. The Original Reimbursement Agreement, as amended by the Amendment No. 1 and the Amendment No. 2, is hereinafter referred to as the "Second Amended Reimbursement Agreement" and the Second Amended Reimbursement Agreement, as amended by this Amendment No. 3 and as it may be further amended and supplemented from time to time, is hereinafter referred to as the "Reimbursement Agreement."

WITNESSETH:

WHEREAS, pursuant to a Trust Agreement by and among Union Bank, N.A., as trustee (together with its successors and permitted assigns, the "Trustee"), Sacramento Suburban Water District Financing Corporation, a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation") and the Applicant, dated as of March 1, 2009 (as more particularly defined in the Second Amended Reimbursement Agreement, the "Trust Agreement"), the Applicant has authorized the issuance of the Sacramento Suburban Water District Adjustable Rate Refunding Revenue Certificates of Participation, Series 2009A (the "Certificates");

WHEREAS, the Certificates are payable from installment payments made by the Applicant to the Corporation pursuant to an Installment Purchase Agreement by and between the Applicant and the Corporation, dated as of March 1, 2009 (as more particularly defined in the Second Amended Reimbursement Agreement, the "Installment Purchase Agreement");

WHEREAS, the Applicant requested and the Bank issued an irrevocable transferable letter of credit (as more particularly defined in the Second Amended Reimbursement Agreement, the "Letter of Credit") for the payment by the Trustee, when and as due, of the principal of, the purchase price and interest on the Certificates, and to provide a liquidity facility in respect of certain drawings under the Letter of Credit;

WHEREAS, the Applicant has applied to the Bank for the extension by the Bank of the Stated Expiration Date of the Letter of Credit to November 1, 2022, and the Bank has agreed to extend the Stated Expiration Date of the Letter of Credit to November 1, 2022 on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing and the undertakings herein set forth and intending to be legally bound, the Applicant and the Bank hereby agree as follows:

Section 1. Authority and Definitions.

(a) This Amendment No. 3 is entered into pursuant to Section 7.7 of the Second Amended Reimbursement Agreement.

(b) This Amendment No. 3 amends the Second Amended Reimbursement Agreement.

(c) Capitalized terms used herein without definition shall have the meanings set forth in the Second Amended Reimbursement Agreement.

(d) Subject to the satisfaction of the conditions precedent set forth in Section 2 hereof, this Amendment No. 3 shall become effective, the Amendment No. 1 to Fee Letter Agreement, dated November 1, 2017, between the Applicant and the Bank (the "Fee Letter Amendment No. 1") shall become effective, and a letter of credit amendment substantially in the form of Exhibit A attached hereto (the "Letter of Credit Amendment No. 3") shall be delivered to the Trustee by the Bank, upon the execution and delivery of this Amendment No. 3 and the Fee Letter Amendment No. 1 by the Applicant and the Bank on November 1, 2017 (the "Second Extension Closing Date").

(e) The provisions of this Amendment No. 3 shall supersede and prevail over any conflicting provisions of the Second Amended Reimbursement Agreement. If there is any conflict between the terms, conditions and provisions of this Amendment No. 3 and those of any of the Related Documents, the terms, conditions and provisions of this Amendment No. 3, as applicable, shall prevail. Save and except as expressly amended hereby, all of the terms and provisions of the Second Amended Reimbursement Agreement continue in full force and effect and are applicable to the provisions of this Amendment No. 3 and the obligations of the parties hereunder. Reference to this specific Amendment No. 3 need not be made in any note, document, agreement, letter, certificate, the Reimbursement Agreement or any communication issued or made subsequent to, or with respect to, the Reimbursement Agreement, it being hereby agreed that any reference to the Reimbursement Agreement shall be sufficient to refer to the Second Amended Reimbursement Agreement as hereby amended. The parties hereto expressly agree that this Amendment No. 3 shall constitute a modification of the Second Amended Reimbursement Agreement and does not constitute a novation or substitution with respect to the Second Amended Reimbursement Agreement.

Section 2. Amendment of the Second Amended Reimbursement Agreement.

(a) Section 1.01 of the Second Amended Reimbursement Agreement is hereby amended by deleting the following definitions and substituting the following therefor:

"Fee Letter" – means the Fee Letter Agreement, dated April 15, 2015, by and between the Applicant and the Bank, as amended by the Amendment No. 1 to Fee Letter Agreement, dated November 1, 2017, by and between the Applicant and the Bank, and as the same may be further amended, modified or supplemented from time to time by written instrument executed by the parties thereto.

“LIBOR Index Rate” means, for any day, a rate per annum (rounded upwards, if necessary to the nearest 1/1000 of 1%) for deposits in United States Dollars for a period equal to one month, which appears on Reuters LIBOR01 Page (or such other commercially available source providing such quotations as may be designated by the Bank from time to time) as of 11:00 a.m. (London, England time) on such date (or, if such day is not a Business Day, on the immediately preceding Business Day); provided, that if such rate does not appear on such page on such date, the LIBOR Index Rate shall be determined by an alternate method that is designed to produce a rate as similar as possible to the LIBOR Index Rate which alternate method shall be reasonably selected by the Bank; and provided, further, that if the LIBOR Index Rate shall become temporarily unavailable or shall cease to exist, the LIBOR Index Rate shall be a successor interest rate index reasonably selected by the Bank.

(b) The fourth sentence of Section 2.3(a) of the Second Amended Reimbursement Agreement is hereby deleted in its entirety and the following substituted therefor:

Unless otherwise paid in full on the date provided above and so long as the conditions precedent contained in Section 3.1(a)(iii)(A) and (B) hereof are satisfied on the related Amortization Commencement Date, such Liquidity Advance shall be payable by the Applicant in equal semi-annual installments (“Semi-annual Principal Payments”) on the last Business Day of March and September in each year (commencing on the first such date to occur after the related Amortization Commencement Date) in the amounts hereinafter provided, with the final installment in an amount equal to the entire then outstanding principal amount of such Liquidity Advance due and payable on the date which is the third (3rd) anniversary of the date on which the related Liquidity Advance was made (the “Amortization End Date”) (the period commencing on the Amortization Commencement Date and ending on the Amortization End Date is herein referred to as the “Amortization Period”).

(c) Any references in the Second Amended Reimbursement Agreement to the purchase of Bank Certificates by the Bank shall be deemed to be modified to refer to the purchase of Certificates by the Trustee with the proceeds of a Liquidity Drawing.

Section 3. Conditions Precedent to Issuance of the Letter of Credit Amendment No. 3. The obligation of the Bank to issue the Letter of Credit Amendment No. 3 shall be subject to the fulfillment of the following conditions precedent on or before the Second Extension Closing Date, in a manner satisfactory to the Bank and its counsel:

(a) the Bank shall have received on or before the Second Extension Closing Date true and complete original executed counterparts of this Amendment No. 3 and the Fee Letter Amendment No. 1;

(b) the Bank shall have received a copy of the resolution of the governing body of the Applicant approving this Amendment No. 3 and the Fee Letter Amendment

No. 1 and the other matters contemplated hereby, certified as of the Second Extension Closing Date by a duly authorized officer of the Applicant;

(c) the Bank shall have received a certificate of a duly authorized officer of the Applicant certifying the names and true signatures of the officers of the Applicant authorized to sign this Amendment No. 3 and the Fee Letter Amendment No. 1 and the other documents to be delivered by it hereunder or thereunder and certifying that the Applicant has delivered to the Bank true, correct and complete copies of the Related Documents delivered prior to the Second Extension Closing Date;

(d) the Bank shall have received a written opinion or opinions of counsel to the Applicant, in form and substance satisfactory to the Bank and its counsel and dated the Second Extension Closing Date, covering such matters incident to the transactions contemplated by this Amendment No. 3, the Fee Letter Amendment No. 1 and the Letter of Credit Amendment No. 3 as the Bank may reasonably request, including without limitation, the enforceability of the Reimbursement Agreement and the Fee Letter;

(e) (i) The representations and warranties of the Applicant contained in Article Four of the Second Amended Reimbursement Agreement are correct on and as of the Second Extension Closing Date as though made on and as of such date; (ii) no Event of Default or Potential Default has occurred and is continuing, or would result from the issuance of the Letter of Credit Amendment No. 3 or the execution, delivery or performance of this Amendment No. 3 or the Fee Letter Amendment No. 1; (iii) no default has occurred and is continuing under any of the Related Documents; (iv) the Applicant is in compliance with the terms and conditions of the Second Amended Reimbursement Agreement and has performed or complied with all of its obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the Second Extension Closing Date; (v) this Amendment No. 3 and the Fee Letter Amendment No. 1 have been duly authorized, executed and delivered by the Applicant; (vi) the Applicant has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the Second Extension Closing Date; and (vii) all information, documents, statements and certificates provided to the Bank by or on behalf of the Applicant in connection with the transactions contemplated by this Amendment No. 3 and the Fee Letter Amendment No. 1 are true and correct as of the date thereof and were provided in expectation of the Bank's reliance thereon in executing this Amendment No. 3 and the Fee Letter Amendment No. 1;

(f) the Bank shall have received a certificate signed by duly authorized officers of the Applicant, dated the Second Extension Closing Date, to the same effect as Section 3(e) hereof and covering such other matters incident to the transactions contemplated by this Amendment No. 3, the Fee Letter Amendment No. 1 and the Letter of Credit Amendment No. 3 as the Bank may reasonably request; and

(g) all other legal matters pertaining to the execution and delivery of this Amendment No. 3 and the Fee Letter Amendment No. 1 and the issuance of the Letter of Credit Amendment No. 3 shall be reasonably satisfactory to the Bank and its counsel.

Section 4. Representations and Warranties. The Applicant hereby represents and warrants as of the Second Extension Closing Date that: (i) the representations and warranties of the Applicant contained in Article Four of the Second Amended Reimbursement Agreement are correct on and as of the Second Extension Closing Date as though made on and as of such date; (ii) no Event of Default or Potential Default has occurred and is continuing, or would result from the issuance of the Letter of Credit Amendment No. 3 or the execution, delivery or performance of this Amendment No. 3 or the Fee Letter Amendment No. 1; (iii) no default has occurred and is continuing under any of the Related Documents; (iv) the Applicant is in compliance with the terms and conditions of the Second Amended Reimbursement Agreement and has performed or complied with all of its obligations, agreements and covenants to be performed or complied with pursuant to the Reimbursement Agreement on or prior to the Second Extension Closing Date; (v) this Amendment No. 3 and the Fee Letter Amendment No. 1 have been duly authorized, executed and delivered by the Applicant; (vi) the Applicant has delivered to the Bank true, correct and complete copies of the Related Documents and such documents were duly issued, adopted or executed and delivered, have not been modified, amended or rescinded and are in full force and effect on and as of the Second Extension Closing Date; and (vii) all information, documents, statements and certificates provided to the Bank by or on behalf of the Applicant in connection with the transactions contemplated by this Amendment No. 3 and the Fee Letter Amendment No. 1 are true and correct as of the date thereof and were provided in expectation of the Bank's reliance thereon in executing this Amendment No. 3 and the Fee Letter Amendment No. 1.

Section 5. Costs and Expenses. The Applicant has previously agreed pursuant to Section 7.13 of the Original Agreement to pay to the Bank all reasonable costs and expenses, if any, in connection with this Amendment No. 3, the Fee Letter Amendment No. 1 and the Letter of Credit Amendment No. 3, including the reasonable fees and disbursements of counsel to the Bank. The Applicant hereby agrees that such costs and expenses are included as obligations under the Second Amended Reimbursement Agreement.

Section 6. Miscellaneous.

(a) No Waiver. The Applicant acknowledges and agrees that, if and to the extent that the Bank has not heretofore required strict compliance with the performance by the Applicant of the covenants, agreements and obligations of the Applicant under the Reimbursement Agreement or the Related Documents, such action or inaction shall not constitute a waiver of, or otherwise affect in any manner, the Bank's rights and remedies under the Reimbursement Agreement or the Related Documents, as amended hereby, including the right to require performance of such covenants, agreements and obligations strictly in accordance with the terms and provisions thereof.

(b) Severability. In case any one or more of the provisions contained in this Amendment No. 3 should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

(c) Governing Law. This Amendment No. 3 shall be governed by, and construed in accordance with, the laws of the State of New York.

(d) Headings. The captions in this Amendment No. 3 are for convenience of reference only and shall not define or limit the provisions hereof.

(e) Counterparts. This Amendment No. 3 may be executed in counterparts, each of which shall constitute an original but all taken together to constitute one instrument.

(f) Entire Agreement. This Amendment No. 3 constitutes the entire understanding of the parties with respect to the subject matter hereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby. This Amendment No. 3 and the Second Amended Reimbursement Agreement shall be construed as one agreement between the Applicant and the Bank and shall be governed by the provisions of the Second Amended Reimbursement Agreement.

[The Remainder of This Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 3 to Reimbursement Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first above written.

SACRAMENTO SUBURBAN WATER DISTRICT

By: _____
Name: Robert S. Roscoe
Title: General Manager

SUMITOMO MITSUI BANKING CORPORATION,
acting through its New York Branch

By: _____
Name: _____
Title: _____

Exhibit A

Form of Letter of Credit Amendment No. 3

EXHIBIT J
TO
LETTER OF CREDIT

No. LG/MIS/NY-027284

NOTICE OF EXTENSION

November 1, 2017

Letter of Credit Amendment No. 3

MUFG Union Bank, N.A., as Trustee
350 California Street, 11th Floor
San Francisco, California 94104
Attention: Corporate Trust Department

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. LG/MIS/NY-027284 dated June 30, 2009 (the "Letter of Credit"), established by us in your favor as Beneficiary. We hereby notify you that the Stated Expiration Date (as defined in the Letter of Credit) has been extended to November 1, 2022.

All other terms and conditions remain unchanged.

This letter should be attached to the Letter of Credit and made a part thereof.

SUMITOMO MITSUI BANKING CORPORATION,
acting through its New York Branch

By: _____
Name: _____
Title: _____



Agenda Item: 3

Date: September 27, 2017

Subject: 2018 Budget and 2019 Forecast - First Draft and Reserve Policy (PL – Fin 004)

Staff Contact: Daniel A. Bills, Finance Director

Recommendation:

Discuss first draft of the 2018 Budget and 2019 forecast (Exhibit 1). Review the District’s Reserve Policy (Exhibit 2).

Recommend Changes for a Second Draft to go before the full board at the Board Workshop, scheduled for Monday, October 9, at 6:00 p.m. Provide direction to staff.

Discussion:

Attached are the summary and detailed analyses of the proposed 2018 budget and 2019 forecast. The assumptions used in the proposed 2018 budget were presented to the Finance and Audit Committee and the Board in July 2017. Committee and Board comments and suggestions on the assumptions have been incorporated into this first draft.

The 2018 Budget and 2019 Forecast materials are presented in the following order in the attached PowerPoint presentation (Exhibit 1):

1. District Goals and Budget Process
2. 2018 and 2019 Key Assumptions
3. Total Revenue, Expense and Reserve Balance Analysis
4. Operation & Maintenance (O&M) Budget
5. Capital Improvement Program (CIP) Budget
6. Operating Capital Budget (OCB)
7. Debt Service Forecast
8. Reserve Policy (Exhibit 2)

Fiscal Impact:

If adopted as presented, the 2018 O&M budget would be \$21.9 million (including funding other post-employment benefits of \$0.56 million); the 2018 CIP budget would be \$19.0 million; the 2018 OCB budget would be \$1.3 million, and the 2018 debt service forecast would be \$7.7 million. The total of all four budgets would be \$49.9 million. Revenues are projected to be \$46.5 million resulting in a planned drawdown of reserves of \$3.4 million. The reserve planned drawdown is the result of \$3.2 million of delayed CIP projects, primarily the Parkland Estates

Phase 2 distribution main project. Projected reserve level at the end of 2018 is expected to be \$39.8 million.

Strategic Plan Alignment:

Finance – 4.H. Produce and monitor an annual budget for necessary system operations, maintenance and improvements.

2018 Budget
2019 Forecast
First Draft

Finance & Audit Committee
October 2, 2017

Mission Statement

- *To deliver a high quality, reliable supply of water and superior customer service at the lowest responsible price.*

Strategic Plan Goals

- **Water Supply:**
 - Assure a present and long-term safe and reliable supply of high quality water in an environmentally responsible and sustainable manner for District customers.
- **Facilities and Operations:**
 - Plan, construct, operate and maintain the District water system embracing sustainable practices to provide reliable delivery of high quality water.
- **Customer Service:**
 - Assure superior and reliable customer service.
- **Finance:**
 - Ensure effective and efficient management and public reporting of all District financial processes.
- **Leadership:**
 - Provide leadership on regional, statewide and national water management issues that impact the customers.

2018/19 Budget Development Process

- Staff Development of Budgets
- Finance and Audit Committee – 07/10/17, 3:00 pm
 - Budget Assumptions; Provide Direction to Staff
- September Board Meeting – 09/18/17
 - Status Report; Provide Direction to Staff
- Finance and Audit Committee – 10/02/17, 3:00 pm
 - First Draft; Provide Direction to Staff
- Board Workshop – 10/09/17, 6:00 pm
 - Second Draft; Provide Direction to Staff
- October Board Meeting – 10/16/17
 - As Directed at Board Workshop; Provide Additional Direction to Staff
- November Board Meeting – 11/20/17
 - Budget Approval or Additional Direction to Staff

2018/19 Budget Process

- Two Year Planning Process
 - Revenue and Expenses Projected over a 2 Year Horizon

- O&M and OCB Budget
 - Budget Adopted for First Year
 - Forecast Provided for Second Year

- CIP Projects and Budget
 - Budget Adopted through Project Completion (2018 and into 2019)
 - Projects Approved for 2 Year Period

2018/19 Budget Assumptions

| Key Assumptions | 2016 | | 2017 | | 2018 | | 2019 | |
|--------------------------------------------------------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|------------|
| 1 Rate Increase | 4.00% | \$1,615,000 | 4.00% | \$1,700,000 | 4.00% | \$1,800,000 | | |
| 2 No Change in SSWD Service Boundaries | | | | | | | | |
| 3 New Service Connections (Growth) | Increase | 0.43% | Increase | 0.52% | Increase | 0.52% | Increase | 0.52% |
| 4 Water Production: (A) | <u>Cost/AF</u> | <u>AF</u> | <u>Cost/AF</u> | <u>AF</u> | <u>Cost/AF</u> | <u>AF</u> | <u>Cost/AF</u> | <u>AF</u> |
| a. Water Supply Forecast Based on 5 Year Average | | | | | | | | |
| b. SSA Surface Water (City) | \$ 428.80 | 550 AF | \$ 450.24 | 1,000 AF | \$ 463.75 | 1,000 AF | \$ 477.66 | 1,000 AF |
| c. SSA Groundwater (Variable costs) | \$ 118.39 | 10,550 AF | \$ 123.12 | 15,000 AF | \$ 127.73 | 13,000 AF | \$ 132.84 | 13,000 AF |
| d. NSA Surface Water (PCWA) | \$ 48.05 | 12,000 AF | \$ 50.45 | 12,000 AF | \$ 35.00 | 12,000 AF | \$ 35.00 | 12,000 AF |
| e. NSA Surface Water (Bureau) | \$ 27.04 | 12,000 AF | \$ 28.39 | 12,000 AF | \$ 32.21 | 12,000 AF | \$ 33.82 | 12,000 AF |
| f. NSA Surface Water (SJWD Treatment) | \$ 135.34 | 12,000 AF | \$ 161.92 | 12,150 AF | \$ 176.49 | 12,150 AF | \$ 192.37 | 12,150 AF |
| g. NSA Groundwater (Variable costs) | \$ 106.81 | 8,900 AF | \$ 111.08 | 6,850 AF | \$ 116.02 | 6,850 AF | \$ 120.66 | 6,850 AF |
| h. NSA Bureau 215 Water | \$ 72.80 | 0 AF | \$ 76.44 | 150 AF | \$ 80.26 | 150 AF | \$ 84.28 | 150 AF |
| i. NSA Wheel Water to Cal-AM, RLEVWD (Revenue) | \$ (196.48) | 2,500 AF | \$ (337.05) | 2,500 AF | \$ (356.14) | 2,500 AF | \$ (373.95) | 2,500 AF |
| 5 Anticipated Outside Water Sales, Net | | None | | None | | None | | None |
| 6 Investment Yield | | 1.75% | | 2.00% | | 2.00% | | 2.00% |
| 7 Variable Debt Interest Rate | | 3.86% | | 3.86% | | 3.86% | | 3.86% |
| 8 Electrical Cost Increase | | 2.50% | | 2.50% | | 2.50% | | 2.50% |
| 9 COLA (As of July 31) | | 0.30% | | 0.70% | | 2.30% | | 2.30% |
| 10 Merit Program | | 4.00% | | 3.00% | | 3.00% | | 3.00% |
| 11 Construction Inflation (B) | | 3.00% | | 2.80% | | 3.00% | | 3.00% |
| 12 Health Care Cost (C) | | 2.60% | | -2.00% | | 2.33% | | 3.00% |
| 13 Tier 1 Pension Cost (% of Salaries) | \$317,000 | 21.70% | \$ 373,000 | 21.50% | \$ 470,000 | 22.37% | \$ 582,000 | 23.00% |
| 14 Tier 2 Pension Cost (% of Salaries) | \$ 5,000 | 16.20% | \$ 7,500 | 16.10% | \$ 12,500 | 16.64% | \$ 18,000 | 17.10% |
| 15 Tier 3 Pension Cost (% of Salaries) | | 6.73% | \$ 200 | 6.90% | \$ 500 | 7.30% | \$ 900 | 7.30% |
| 16 New Hires | | 1 | | 4 | | 2 | | 0 |
| 17 Funding of Post Retirement Benefits | | \$ 459,600 | | \$ 472,200 | | \$ 560,000 | | \$ 575,000 |
| Footnotes: | | | | | | | | |
| (A) SSA = South Service Area; NSA = North Service Area | | | | | | | | |
| (B) 20 Cities CCI Index, Source: ENR | | | | | | | | |
| (C) From UnitedHealthcare to HealthNet Smart Care HMO | | | | | | | | |

2018 Water Production Budget Options

| | Average | Average | 2017 | 2017 | 2018 Options | | | |
|-------------------|-----------------------|----------------------|-----------------|------------------|---------------|---------------|----------------------|---------------|
| | <u>Prior 10 Years</u> | <u>Prior 5 Years</u> | <u>Budgeted</u> | <u>Projected</u> | 1 | 2 | 3 | 4 |
| SSA Ground Water | 13,381 | 12,844 | 15,000 | 13,700 | 13,381 | 12,844 | 13,000 | 14,000 |
| SSA Surface Water | 2,358 | 1,377 | 1,000 | 1,300 | 2,358 | 1,377 | 1,000 | - |
| NSA Ground Water | 13,306 | 15,953 | 6,850 | 6,000 | 13,306 | 15,953 | 6,850 | 19,000 |
| NSA Surface Water | 7,079 | 3,250 | 12,150 | 13,100 | 7,079 | 3,250 | 12,150 | - |
| Total Production | <u>36,123</u> | <u>33,425</u> | <u>35,000</u> | <u>34,100</u> | <u>36,123</u> | <u>33,425</u> | <u>33,000</u> | <u>33,000</u> |

Options:

1. Assumes Average of Prior 10 Years.
2. Assumes Average of Prior 5 Years.
3. Same as 2 above, but with full allotment of NSA surface water.
4. Same as 3 above, but Groundwater only.

2017 Projected Actual and Highlights

| | Amended 2017 Budget \$ Millions | Projected 2017 Actual \$ Millions |
|------------------------------------|------------------------------------------------|--------------------------------------------------|
| Operations & Maintenance Budget | \$21.3 | \$19.6 |
| Capital Improvement Program Budget | \$17.0 | \$14.0 |
| Operating Capital Program Budget | \$ 1.1 | \$ 1.2 |
| Debt Service Budget | <u>\$ 7.8</u> | <u>\$ 7.5</u> |
| Total | \$47.2 | \$42.3 |

2017 Expected Results:

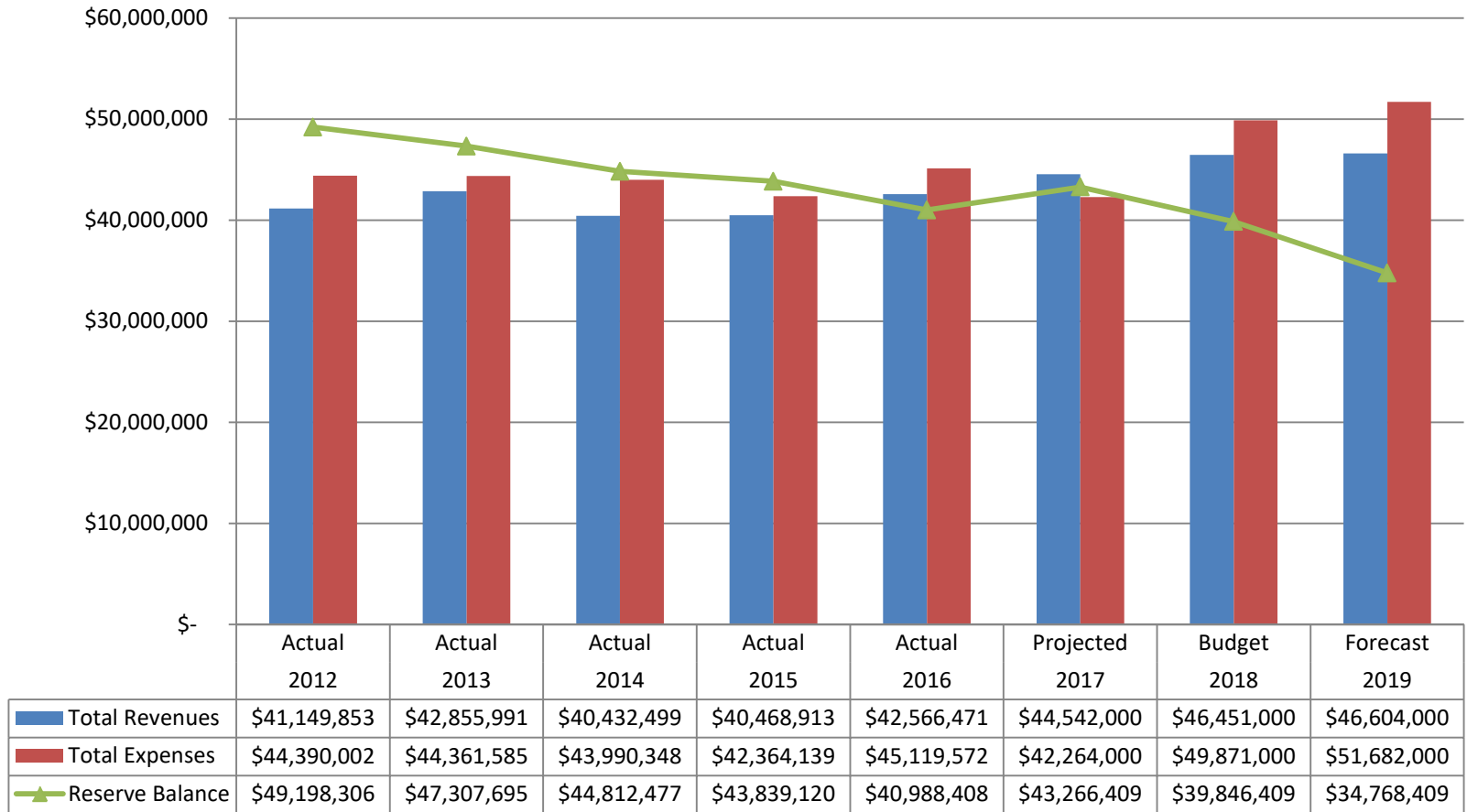
- Water Deliveries of 34,100 AF (32,300 AF to Customers)
 - Includes Wheeled Water Deliveries of 1,800 AF
- Follow modified asset management plans for replacing water infrastructure assets, to include:
 - For 2017 expect to replace ____ miles of Distribution Main Lines, including ____ Meters
 - Install an Additional 1,232 Water Meter Retrofits – (1,216 Meter Retrofit Program, 16 Voluntary)
 - Continue work on Palm Avenue Well – Site Work and Pumping Facilities
 - Begin Permitting and Design of Manganese Treatment Facility at Verner Well
 - Begin Multi-Year Process to Acquire Future Well Sites

2018 Budget and 2019 Forecast

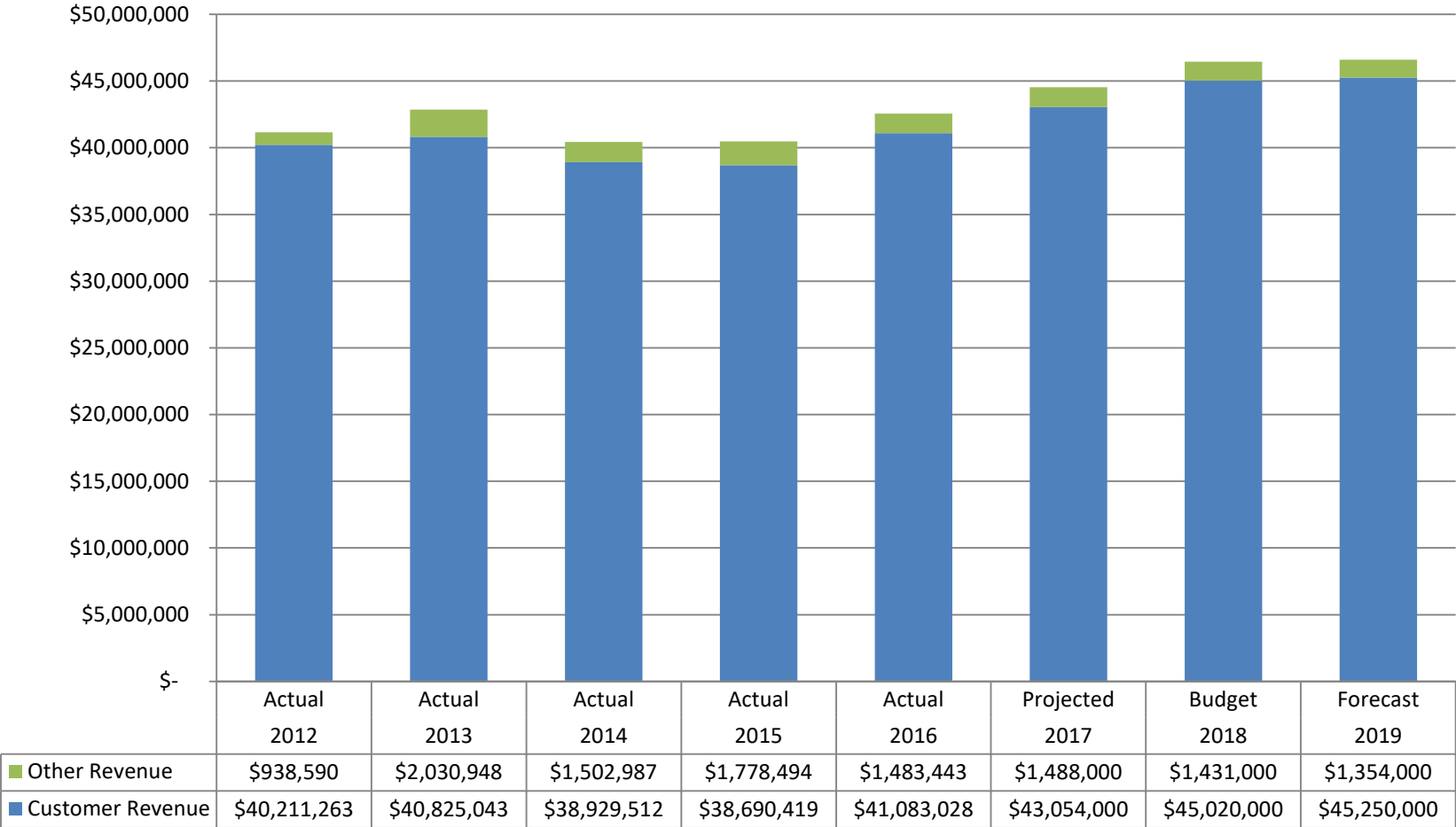
| | 2016 Actual | 2016 Amended Budget | Actual As Of 8/31/17 | 2017 Projected | 2017 Amended Budget | 2018 Proposed Budget | 2019 Forecast |
|-----------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Income From Customers | \$ 41,083,028 | \$ 41,410,000 | \$ 28,321,477 | \$ 43,054,000 | \$ 43,726,000 | \$ 45,020,000 | \$ 45,250,000 |
| Water Transfers | - | - | - | - | 1,992,000 | - | - |
| Total Other Income | 1,483,443 | 2,905,000 | 1,042,039 | 1,488,000 | 1,780,000 | 1,431,000 | 1,354,000 |
| Total Revenue | \$ 42,566,471 | \$ 44,315,000 | \$ 29,363,516 | \$ 44,542,000 | \$ 47,498,000 | \$ 46,451,000 | \$ 46,604,000 |
| Budgets: | | | | | | | |
| Operations and Maintenance | 19,680,746 | 17,895,000 | 12,199,230 | 19,545,000 | 21,311,000 | 21,915,000 | 22,492,000 |
| Capital Improvement Program | 17,210,445 | 18,796,000 | 6,335,378 | 14,010,000 | 16,975,000 | 18,950,000 | 20,170,000 |
| Operating Capital Program | 722,684 | 974,000 | 571,122 | 1,166,000 | 1,166,000 | 1,306,000 | 1,300,000 |
| Debt Service (Forecast) | 7,505,697 | 7,605,000 | 2,322,001 | 7,543,000 | 7,770,000 | 7,700,000 | 7,720,000 |
| Total Costs | 45,119,572 | 45,270,000 | 21,427,731 | 42,264,000 | 47,222,000 | 49,871,000 | 51,682,000 |
| Change in Reserve Balance | (2,553,101) | (955,000) | 7,935,785 | 2,278,001 | 276,000 | (3,420,000) | (5,078,000) |
| Reserve (Cash) Balance | \$ 40,988,408 | \$ 40,033,408 | \$ 48,924,193 | \$ 43,266,409 | \$ 41,264,408 | \$ 39,846,409 | \$ 34,768,409 |

Note: Bolded lines are the Budgets – O&M, CIP, OCB, and Debt Service Forecast

Total Revenues Vs Total Expenditures 2012 to 2019

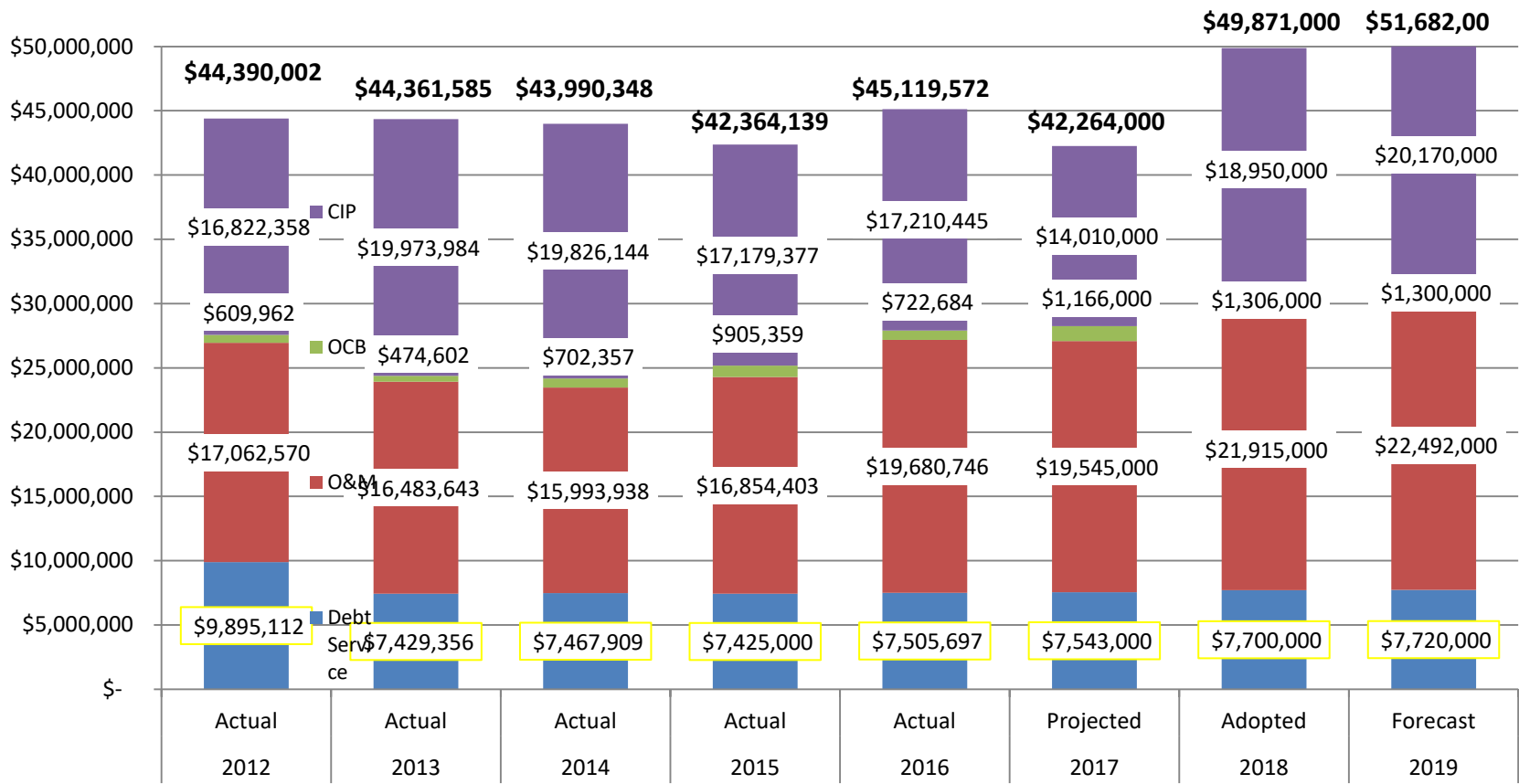


Total Revenues 2012 to 2019



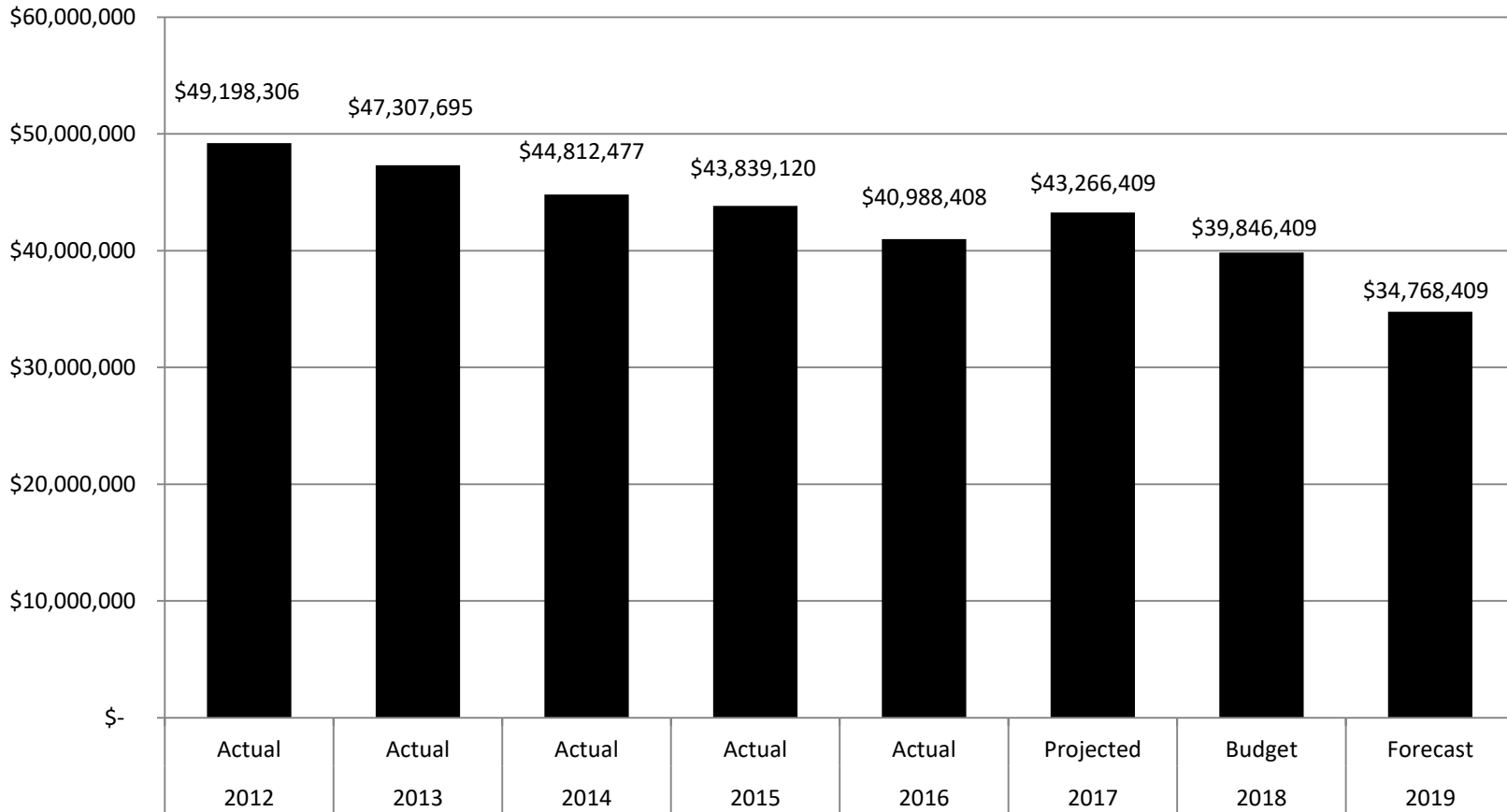
Customer revenue is expected to increase \$1.7 million in 2017 and \$1.8 in 2018 due to the 4.0% per annum rate increase approved in 2013.

Total Expenditures 2012 to 2019



The increase in 2018 is primarily due to increased of purchased water costs

Reserve Balance 2012 to 2019



From a high of \$57.7 million at the end of 2009, the Board has strategically lowered the reserve balance to roughly \$40 million.

Reserve Balance Detail

2012 to 2019

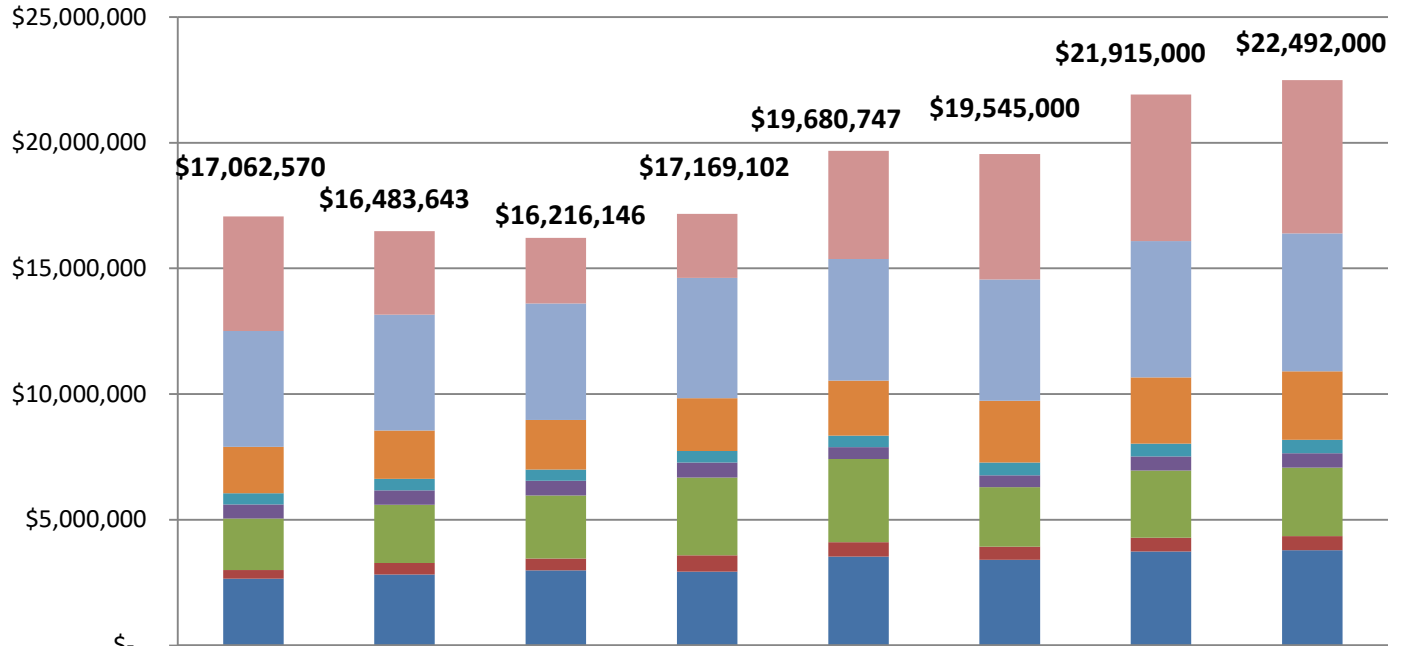
| | Actual | Actual | Actual | Actual | Actual | Projected | Budget | Forecast |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u>12/31/2012</u> | <u>12/31/2013</u> | <u>12/31/2014</u> | <u>12/31/2015</u> | <u>12/31/2016</u> | <u>12/31/2017</u> | <u>12/31/2018</u> | <u>12/31/2019</u> |
| Debt Service Reserve | \$ 3,532,012 | \$ 3,520,472 | \$ 3,540,082 | \$ 3,523,427 | \$ 3,540,038 | \$ 3,561,255 | \$ 3,517,500 | \$ 3,517,500 |
| Facilities Reimbursement | 76,051 | 42,968 | 21,873 | 21,873 | - | - | - | - |
| Emergency/Contingency | 10,660,000 | 10,317,750 | 10,758,000 | 10,758,000 | 10,387,000 | 10,931,500 | 11,255,000 | 11,312,500 |
| Operating | 6,183,575 | 6,466,000 | 6,468,857 | 6,468,857 | 6,490,750 | 7,270,250 | 7,403,750 | 7,553,000 |
| Rate Stabilization | 5,470,000 | 5,525,000 | 5,870,000 | 5,870,000 | 5,630,000 | 5,976,000 | 6,244,500 | 6,277,000 |
| Interest Rate Risk | - | - | - | - | - | - | - | - |
| Grant | 7,696,000 | 3,832,000 | 654,000 | 654,000 | 1,068,000 | 210,000 | - | - |
| Capital Asset | 15,580,668 | 17,603,505 | 17,499,665 | 16,542,963 | 13,872,620 | 15,317,567 | 11,425,659 | 6,108,409 |
| TOTAL | <u>\$ 49,198,306</u> | <u>\$ 47,307,695</u> | <u>\$ 44,812,477</u> | <u>\$ 43,839,120</u> | <u>\$ 40,988,408</u> | <u>\$ 43,266,572</u> | <u>\$ 39,846,409</u> | <u>\$ 34,768,409</u> |

Individual reserve account changes based on proposed 2018 budget.

Actual fluctuations (years 2012 to 2016) are due to changes in CIP and/or consumption revenues.

O&M Budget

O&M Expenses 2012 to 2019



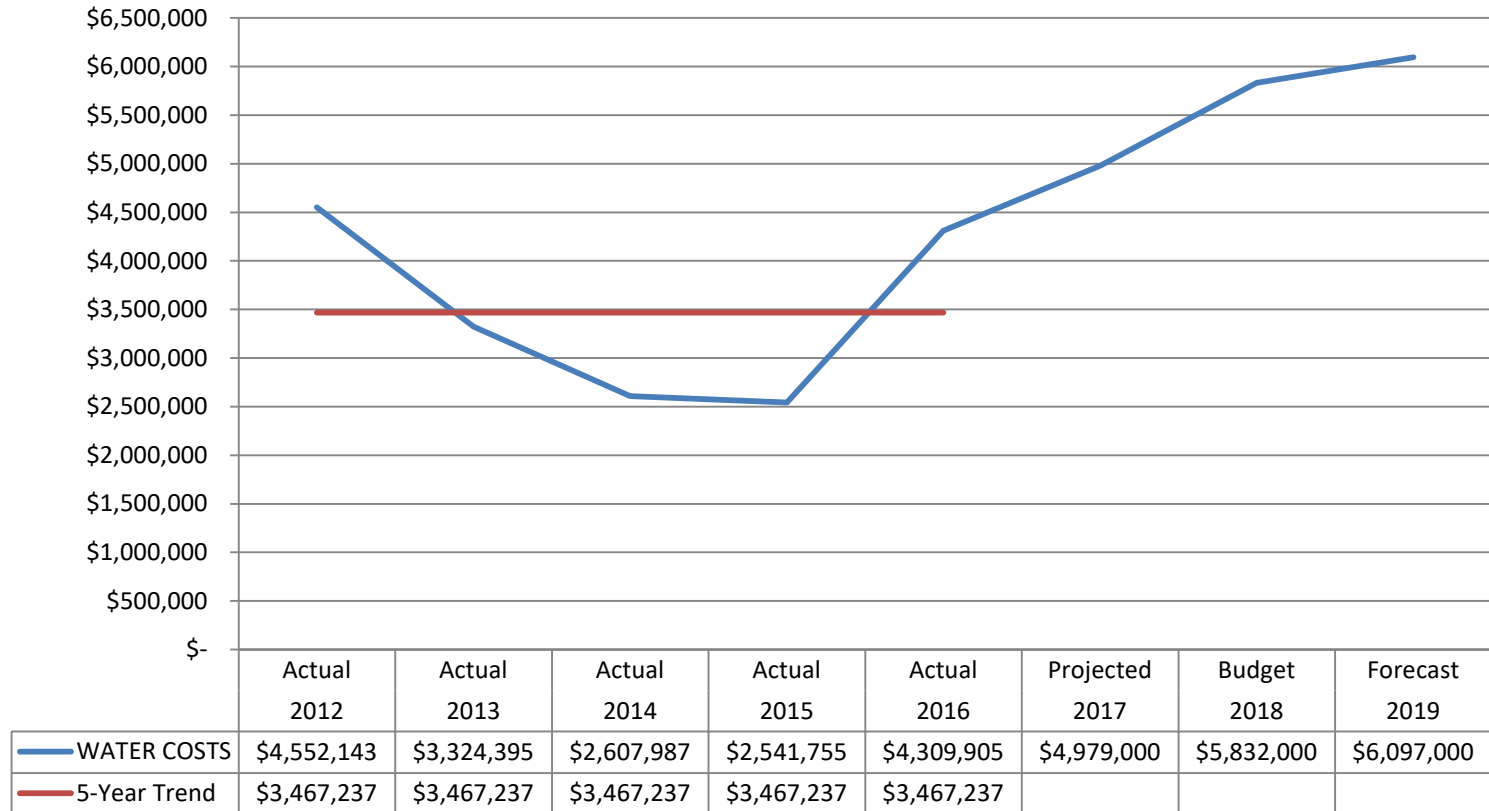
| | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Projected 2017 | Budget 2018 | Forecast 2019 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|------------------|
| ■ WATER COSTS | \$4,552,143 | \$3,324,395 | \$2,607,987 | \$2,541,755 | \$4,309,905 | \$4,979,000 | \$5,832,000 | \$6,097,000 |
| ■ SALARIES | \$4,607,863 | \$4,610,564 | \$4,633,287 | \$4,794,117 | \$4,833,627 | \$4,834,000 | \$5,417,000 | \$5,494,000 |
| ■ EMPLOYEE BENEFITS | \$1,843,785 | \$1,915,889 | \$1,980,390 | \$2,096,685 | \$2,187,134 | \$2,459,000 | \$2,641,000 | \$2,720,000 |
| ■ EMPLOYER TAXES & INSURANCE | \$451,568 | \$457,888 | \$439,159 | \$460,746 | \$458,614 | \$501,000 | \$506,000 | \$533,000 |
| ■ OPEB | \$558,200 | \$576,300 | \$592,700 | \$591,000 | \$470,000 | \$472,200 | \$560,000 | \$575,000 |
| ■ ENGINEERING & CONSTRUCTION SERVICES | \$2,046,857 | \$2,323,246 | \$2,501,575 | \$3,102,132 | \$3,314,420 | \$2,375,000 | \$2,667,000 | \$2,720,000 |
| ■ PUBLIC OUTREACH & CONSERVATION | \$342,356 | \$452,250 | \$469,571 | \$641,111 | \$565,157 | \$511,390 | \$549,000 | \$560,000 |
| ■ OTHER | \$2,659,798 | \$2,823,111 | \$2,991,477 | \$2,941,556 | \$3,541,890 | \$3,413,410 | \$3,743,000 | \$3,793,000 |

Discussion of individual line items variances appear on subsequent pages.

O&M Expense Detail

Water Costs

— WATER COSTS — 5-Year Trend

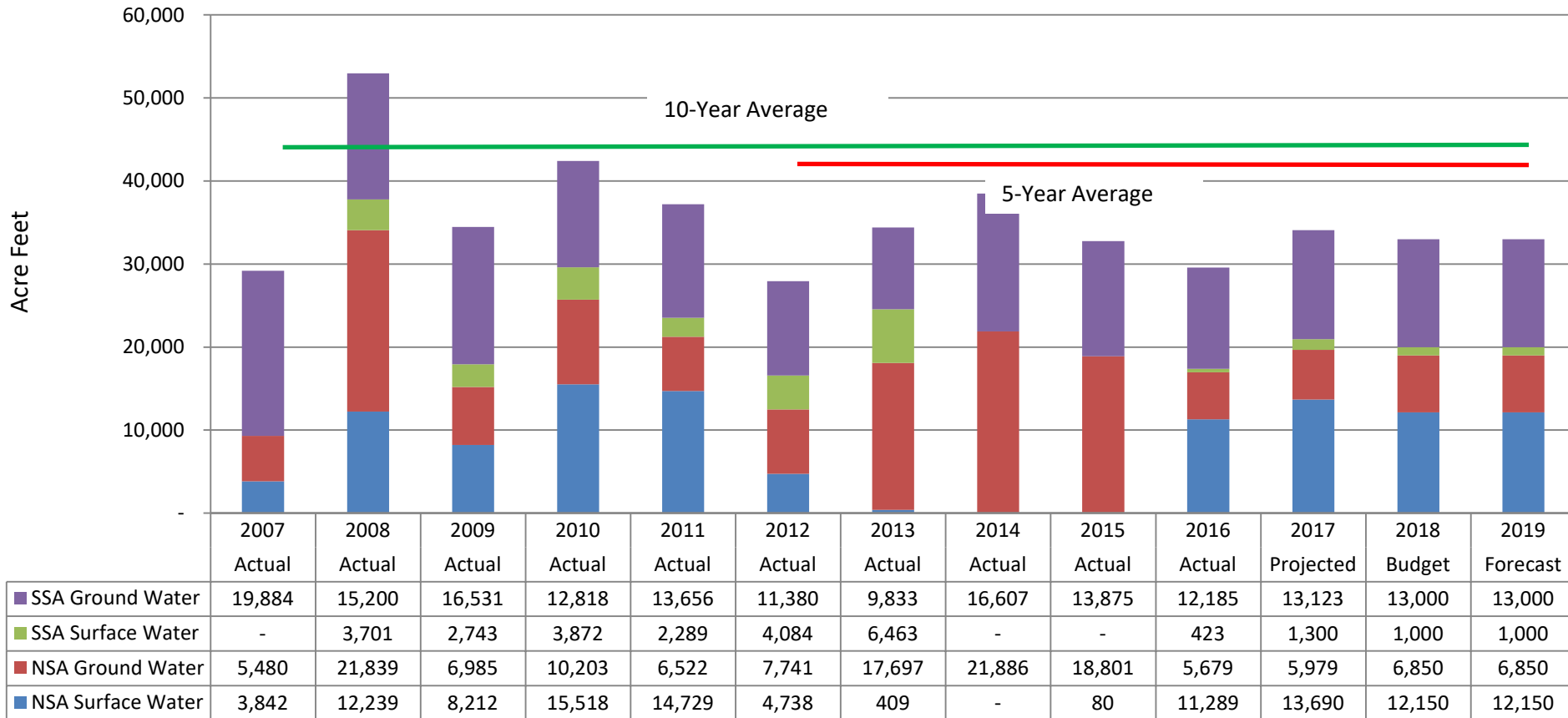


Water costs fluctuate based on hydrological conditions. Due to the conditions in 2013 - 15, SW was largely unavailable. 2018 and 2019 assume the purchase of 13,150 AF of SW (SSA - 1,000 AF and NSA 12,150 AF).

O&M Expense Detail

Water Production

■ NSA Surface Water
 ■ NSA Ground Water
 ■ SSA Surface Water
 ■ SSA Ground Water



2018 production amounts/alternatives discussed with the Finance and Audit Committee in July.

Surface Water vs Ground Water Costs

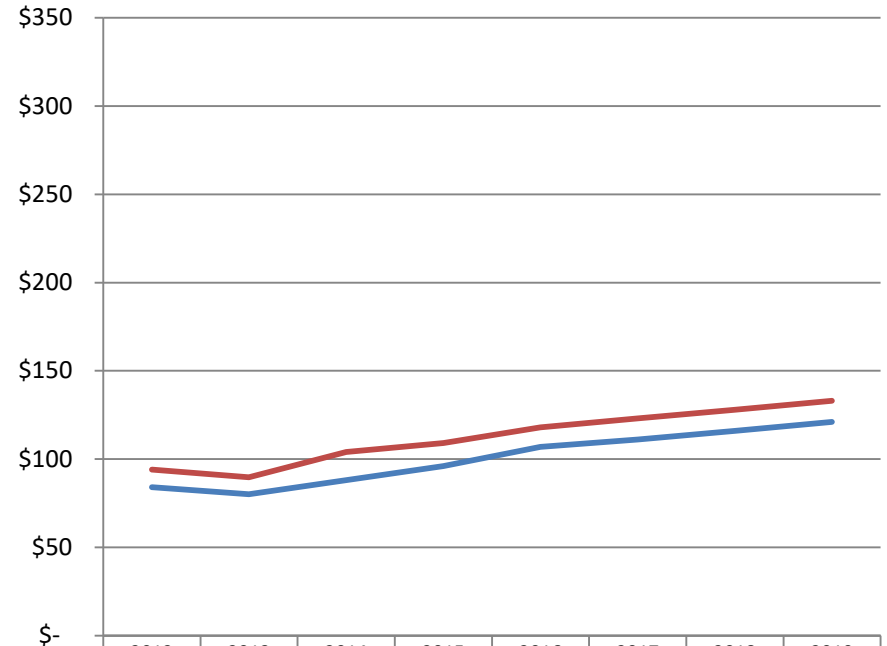
Surface Water

— NSA — SSA



Ground Water

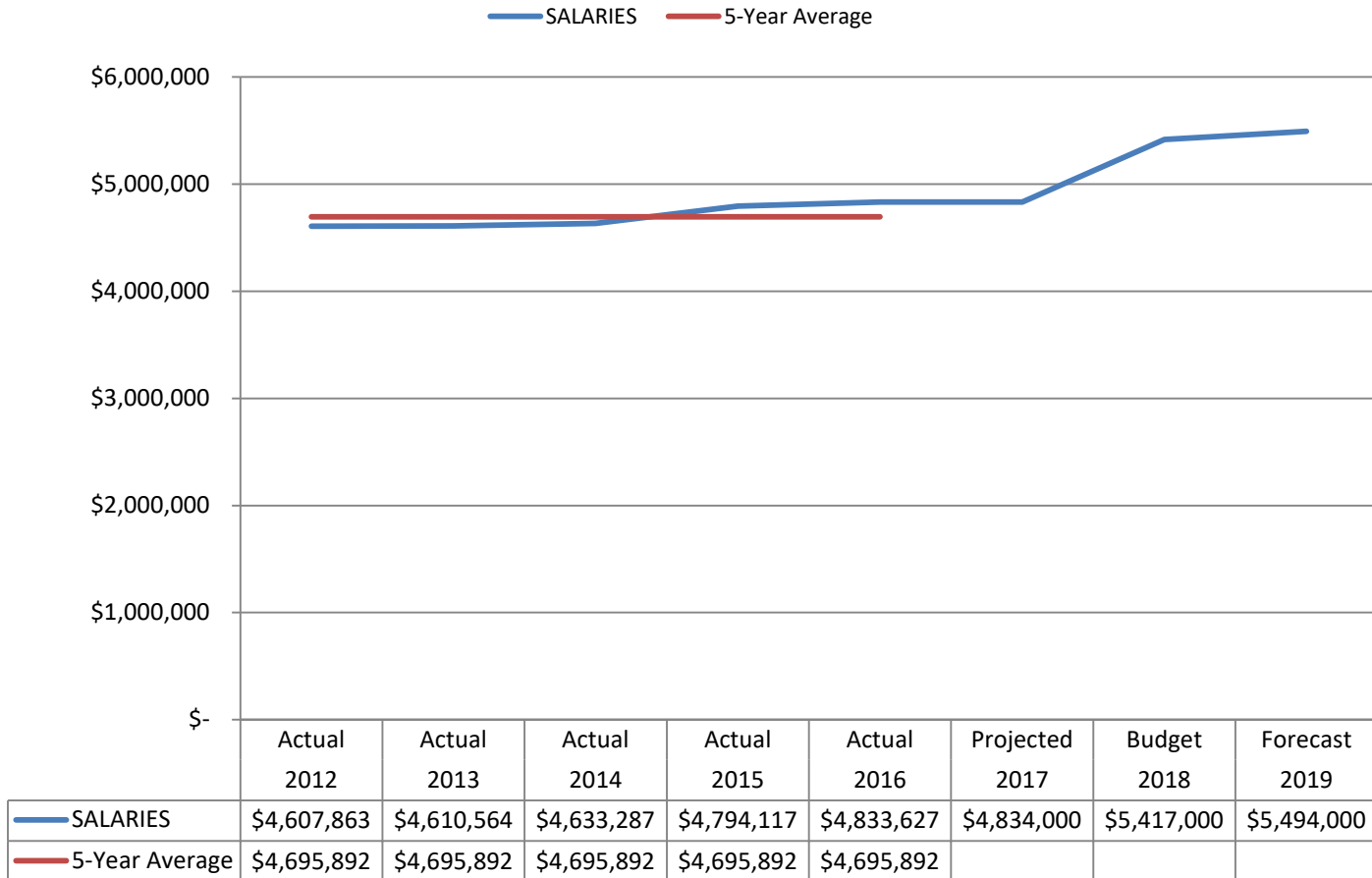
— NSA — SSA



SSA - City SW cost is projected to increase 3% to \$464 per AF in 2018 and 2019, absent a reevaluation by the City.
 NSA –SW cost for 2018 and 2019 expected to be \$244/AF and \$261/AF compared to \$228/AF in 2017.

O&M Expense Detail

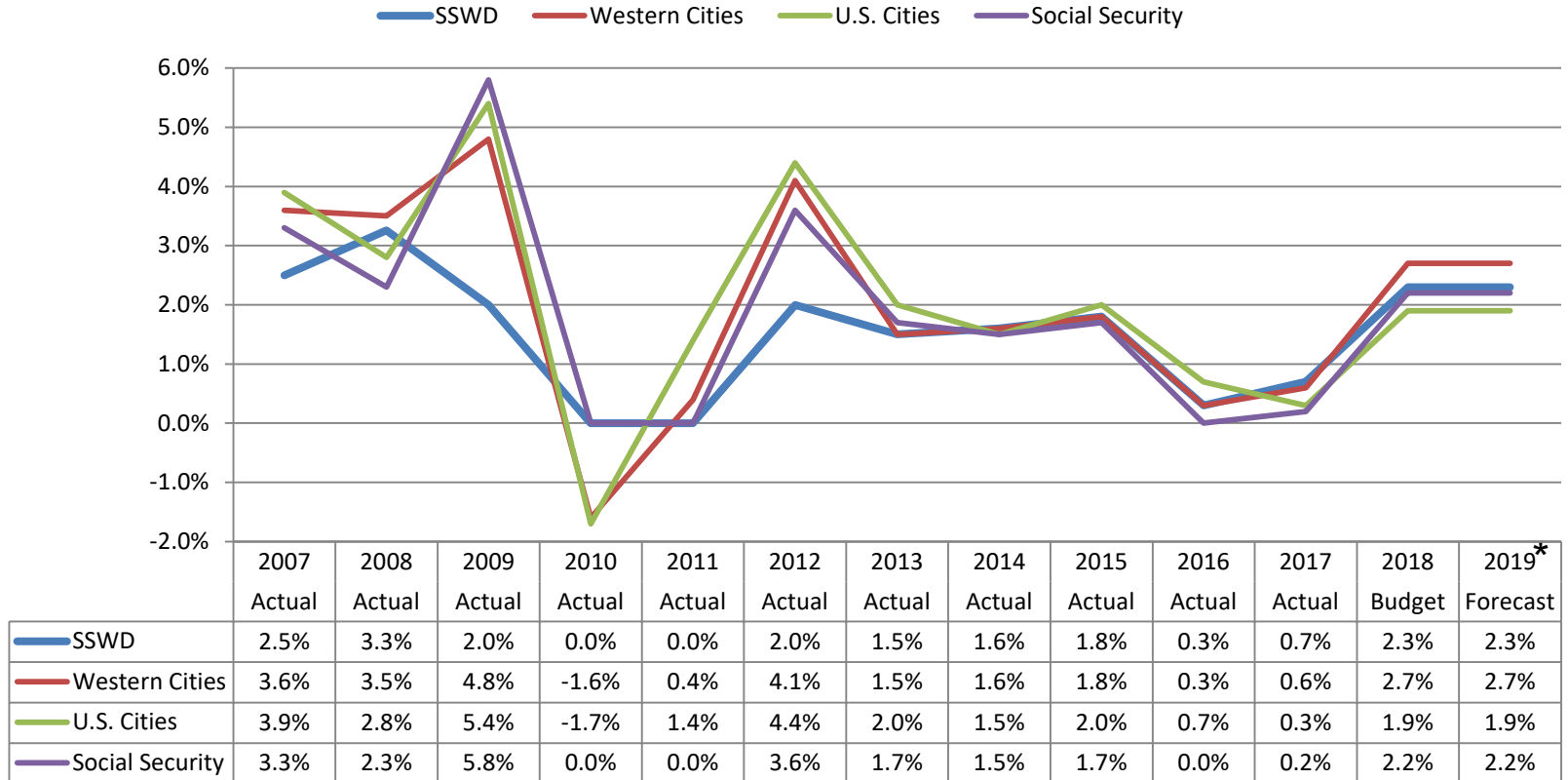
Salaries



Increase in 2018 due to budgeting for General Manager positions (\$180,000), Merit and COLA increases of 5.3% (\$238,000) and unfilled positions during 2017 being filled in 2018.

O&M Expense Detail

COLA



SSWD COLA is intended to be equal to the Western Cities Index. Comparison is also shown to National Consumer Price and Social Security Indices as published on their respective websites.

* 2019 estimated by staff as no change from 2018.

O&M Expense Detail

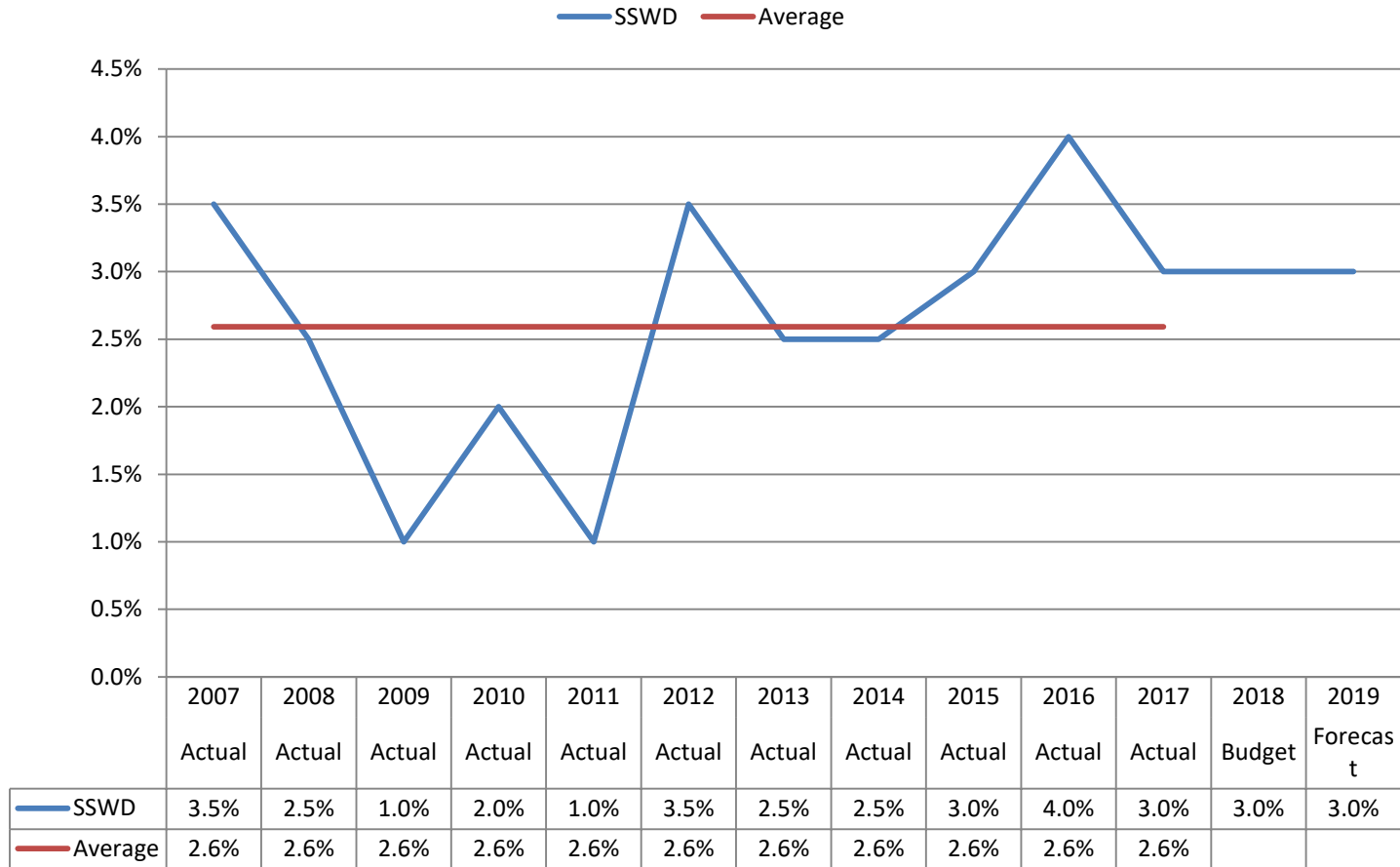
COLA – 10 Year Average

| Index | Average | SSWD Average | SSWD Award% |
|-----------------|---------|--------------|-------------|
| Social Security | 2.0% | 1.5% | 75% |
| U.S. Cities | 2.2% | 1.5% | 67% |
| Western Cities | 2.0% | 1.5% | 75% |
| Total | 2.1% | 1.5% | 72% |

SSWD Average COLA Increase over the past 10 years has been 72% of the average Western Cities, Social Security and US Cities COLAs.

O&M Expense Detail

Merit



Discussion of how merit is administered appears on two following slides.

O&M Expense Detail

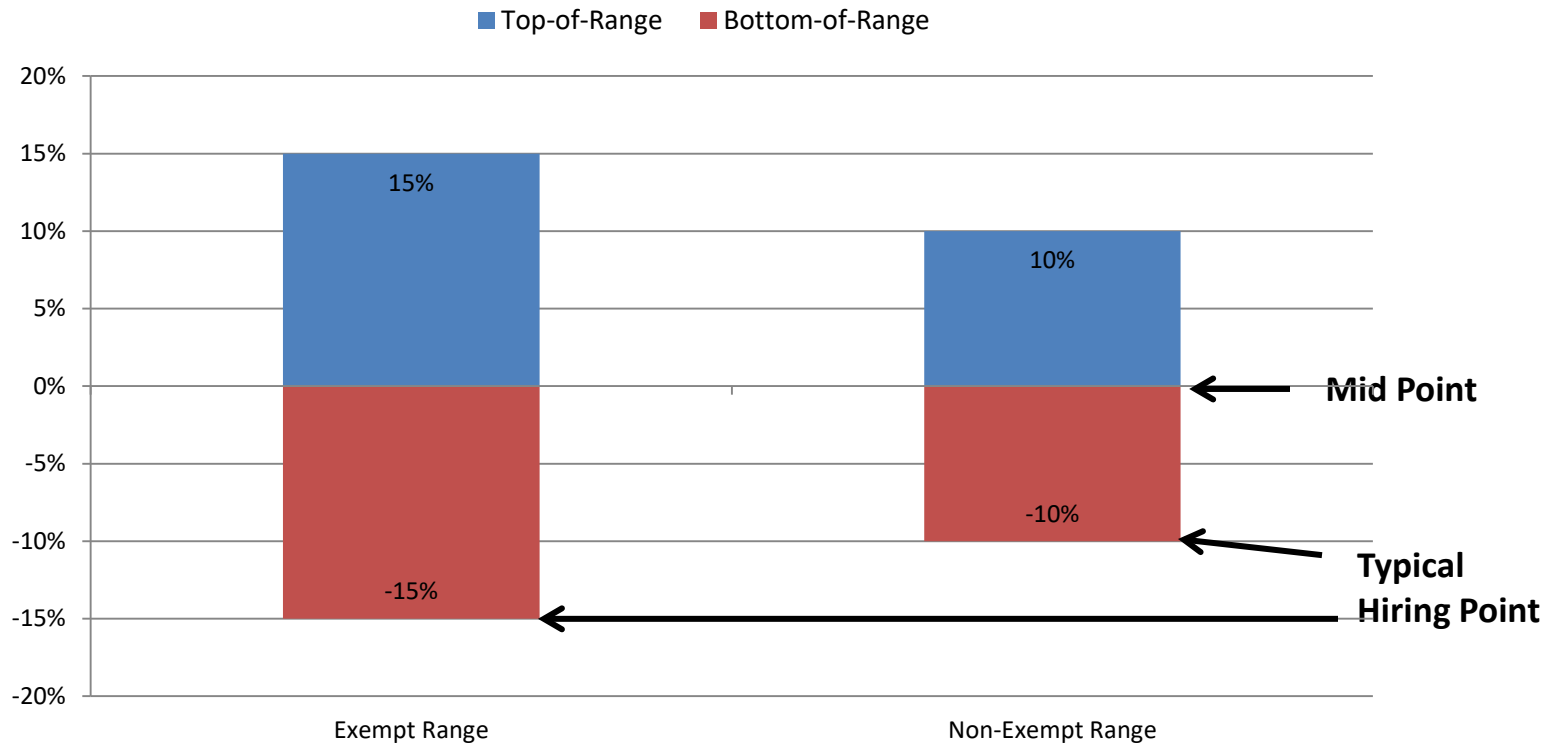
Salary Band Data

| | <u>No. of</u> <u>Employees</u> | <u>At Salary Cap</u> | <u>Percentage</u> |
|-----------------|-----------------------------------|----------------------|-------------------|
| Exempt | 17 | 9 | 53% |
| Non-Exempt | 50 | 22 | 44% |
| Total Employees | 67 | 31 | 46% |

Salary-Capped employees do not receive any change in base salary, but are eligible for a one-time vacation bonus.

O&M Expense Detail

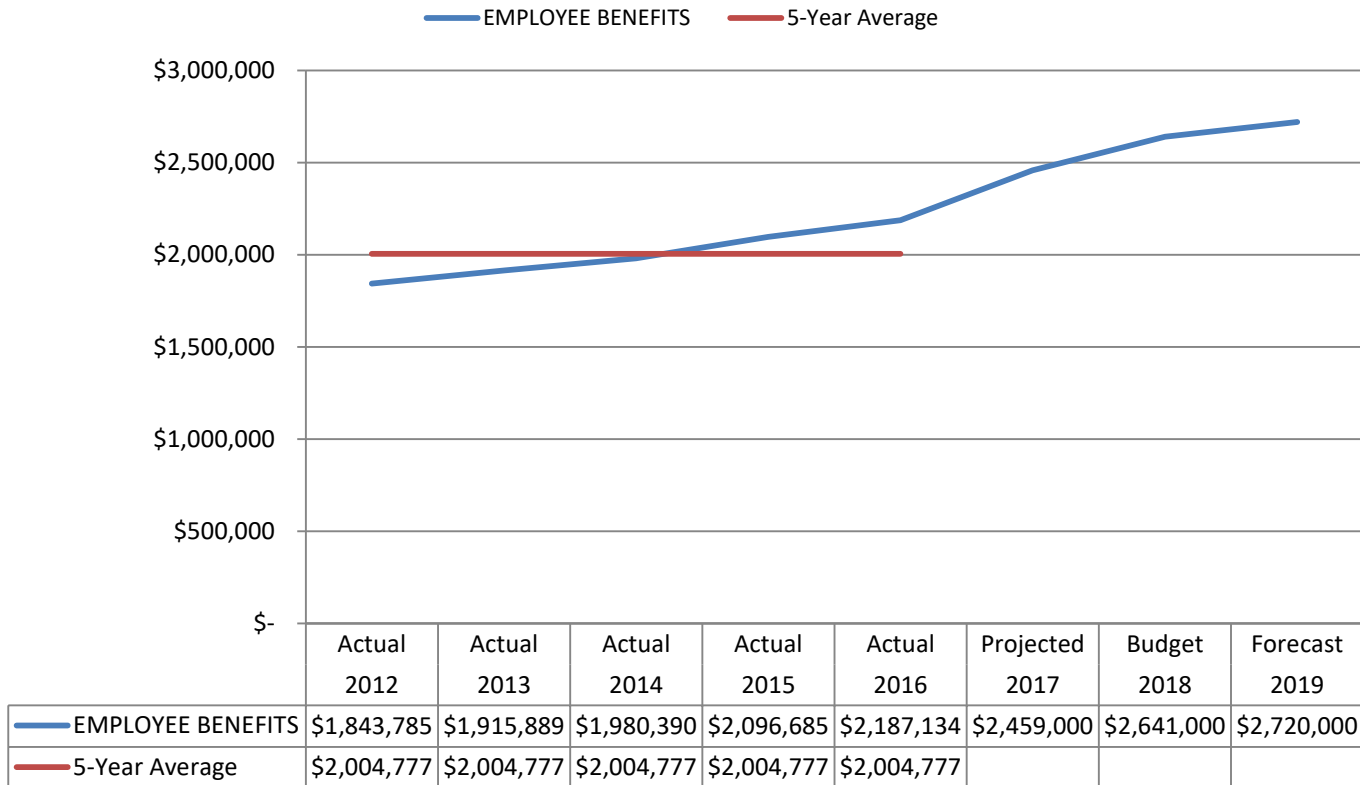
Salary Bands



New employees typically hired at or near bottom of salary range. Based on performance, an average merit increase of 4.0% will move a good performing non-exempt employee through their salary range in 5 years and an exempt employee in 7.5 years.

O&M Expense Detail

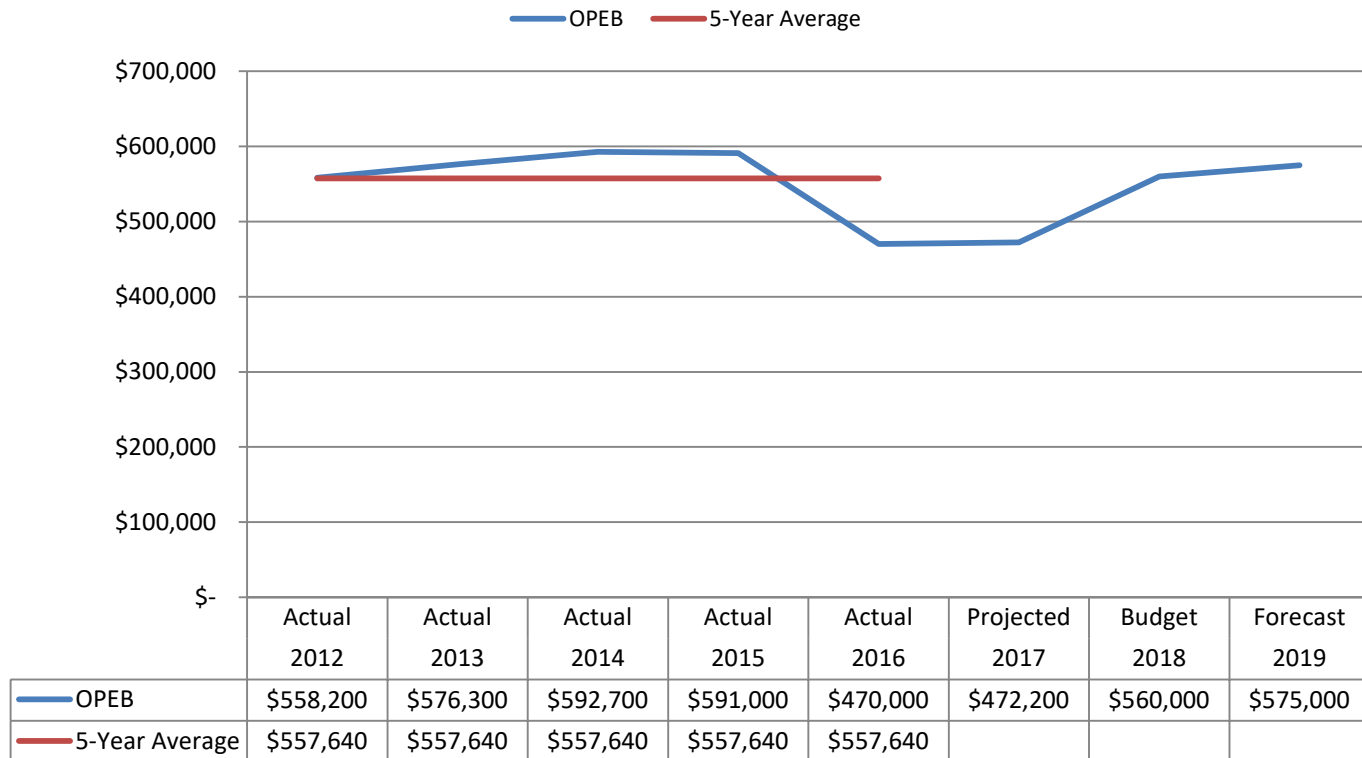
Employee Benefits



2018 increase due to increase in retirement costs and 2nd General Manager position.

O&M Expense Detail

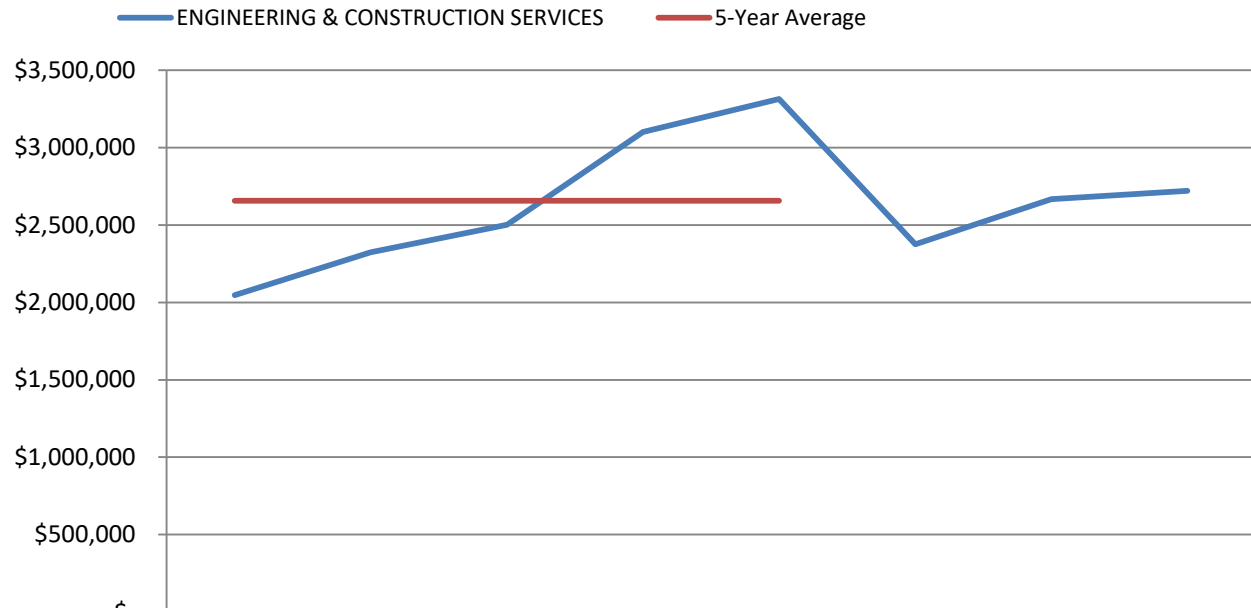
OPEB



2016 - 17 reduction due to a combination of – reduced projected liability and higher earnings inception-to-date; offset by a reduced UAAL amortization from 22 years down to 10 years. 2018 and 2019 increase due to a reduced discount rate (6.5%) and a change in demographic assumptions.

O&M Expense Detail

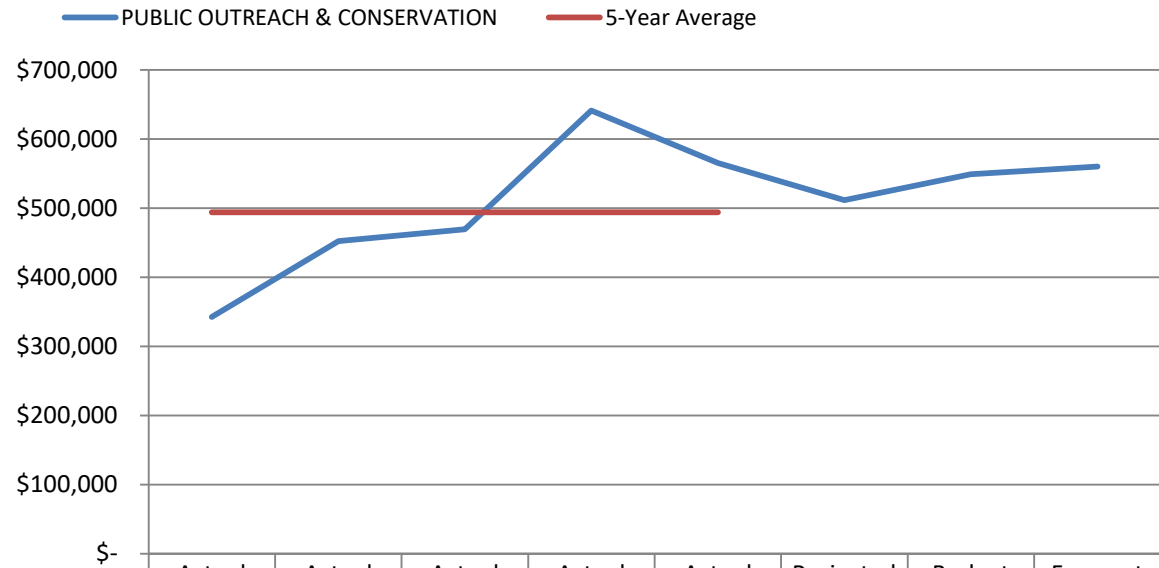
Engineering, Construction & Consulting



| | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Projected 2017 | Budget 2018 | Forecast 2019 |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|------------------|
| ENGINEERING & CONSTRUCTION SERVICES | \$2,046,857 | \$2,323,246 | \$2,501,575 | \$3,102,132 | \$3,314,420 | \$2,375,000 | \$2,667,000 | \$2,720,000 |
| 5-Year Average | \$2,657,646 | \$2,657,646 | \$2,657,646 | \$2,657,646 | \$2,657,646 | | | |

O&M Expense Detail

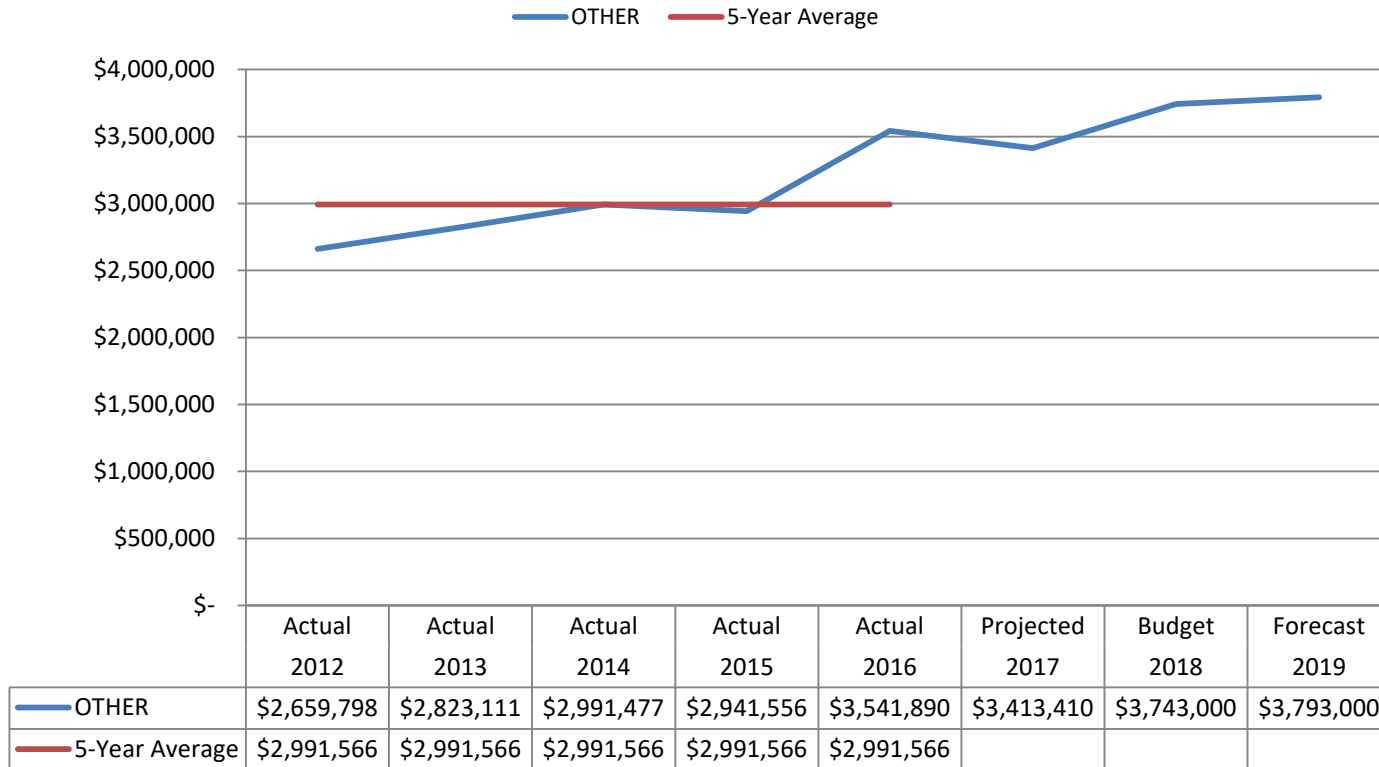
PUBLIC OUTREACH & CONSERVATION



| | Actual 2012 | Actual 2013 | Actual 2014 | Actual 2015 | Actual 2016 | Projected 2017 | Budget 2018 | Forecast 2019 |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|------------------|
| — PUBLIC OUTREACH & CONSERVATION | \$342,356 | \$452,250 | \$469,571 | \$641,111 | \$565,157 | \$511,390 | \$549,000 | \$560,000 |
| — 5-Year Average | \$494,089 | \$494,089 | \$494,089 | \$494,089 | \$494,089 | | | |

O&M Expense Detail

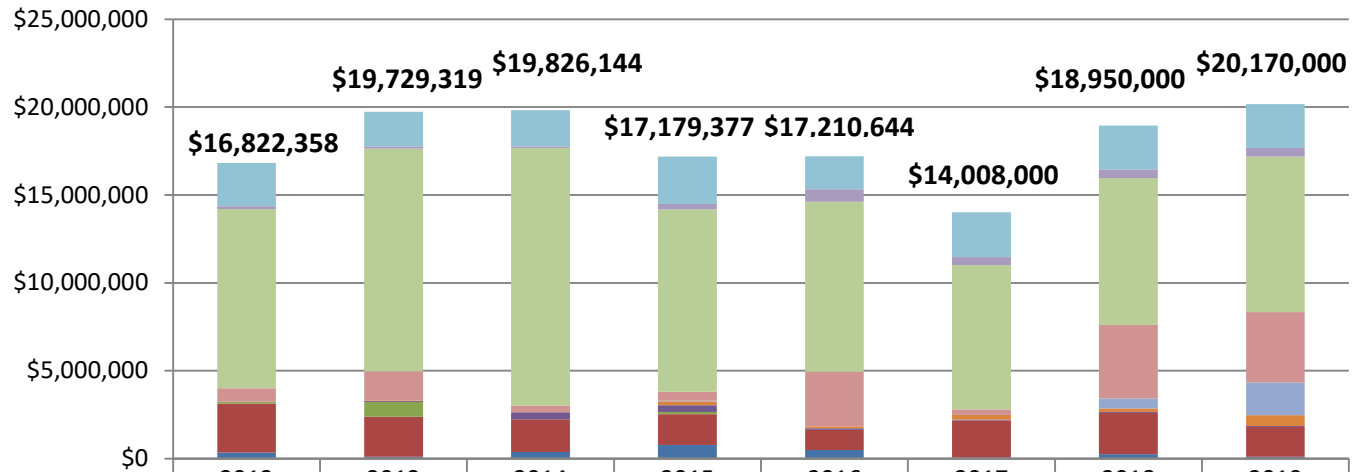
OTHER EXPENSES



2016 -19 increase due primarily to increased operating supplies and inventory for meter repairs, rebuilds and replacements.

CIP Budget

CIP Project Costs 2012 to 2019

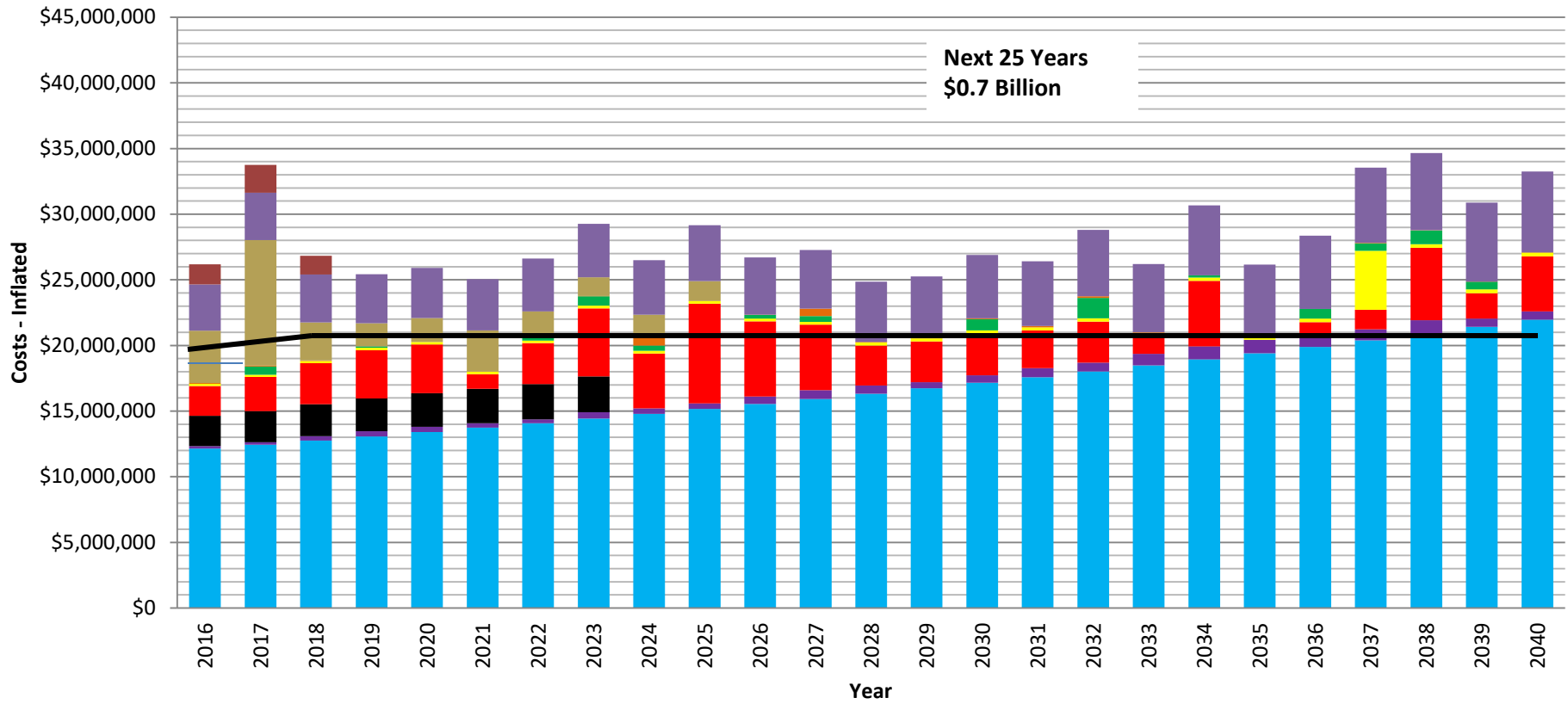


| | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Actual | 2016 Actual | 2017 Projected | 2018 Budget | 2019 Budget |
|-------------------------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|
| ■ Meter Retrofit AMP | 2,462,887 | 1,961,709 | 2,060,561 | 2,691,361 | 1,880,514 | 2,540,000 | 2,500,000 | 2,500,000 |
| ■ Meter Replacement & Repair AMP | 152,219 | 132,922 | 80,975 | 307,870 | 715,337 | 450,000 | 490,000 | 490,000 |
| ■ Dist. Main Replacement AMP | 10,212,546 | 12,674,933 | 14,672,460 | 10,381,851 | 9,674,096 | 8,220,000 | 8,350,000 | 8,850,000 |
| ■ Well Replacement AMP | 744,091 | 1,655,646 | 377,974 | 507,393 | 3,099,875 | 300,000 | 4,200,000 | 4,000,000 |
| ■ Transmission Main AMP | - | - | - | 31,866 | - | 3,750 | 550,000 | 1,850,000 |
| ■ Reservoir and Booster P.S. AMP | 21,040 | 36,373 | - | 221,300 | 116,901 | 275,000 | 200,000 | 630,000 |
| ■ Buildings and Structures AMP | - | - | - | - | - | - | - | - |
| ■ SCADA AMP | 2,341 | 54,245 | 404,802 | 378,687 | 94,243 | 50,000 | 60,000 | 60,000 |
| ■ From 2009 Water System Master Plan | 102,571 | 833,148 | - | 133,676 | - | - | - | - |
| ■ Other Re-Occurring Annual Capital Costs | 2,774,657 | 2,274,474 | 1,859,724 | 1,745,028 | 1,149,924 | 2,125,000 | 2,350,000 | 1,690,000 |
| ■ Other Capitalized Projects | 350,006 | 105,869 | 369,648 | 780,345 | 479,754 | 45,000 | 250,000 | 100,000 |

Discussion of individual line items appears on subsequent pages.

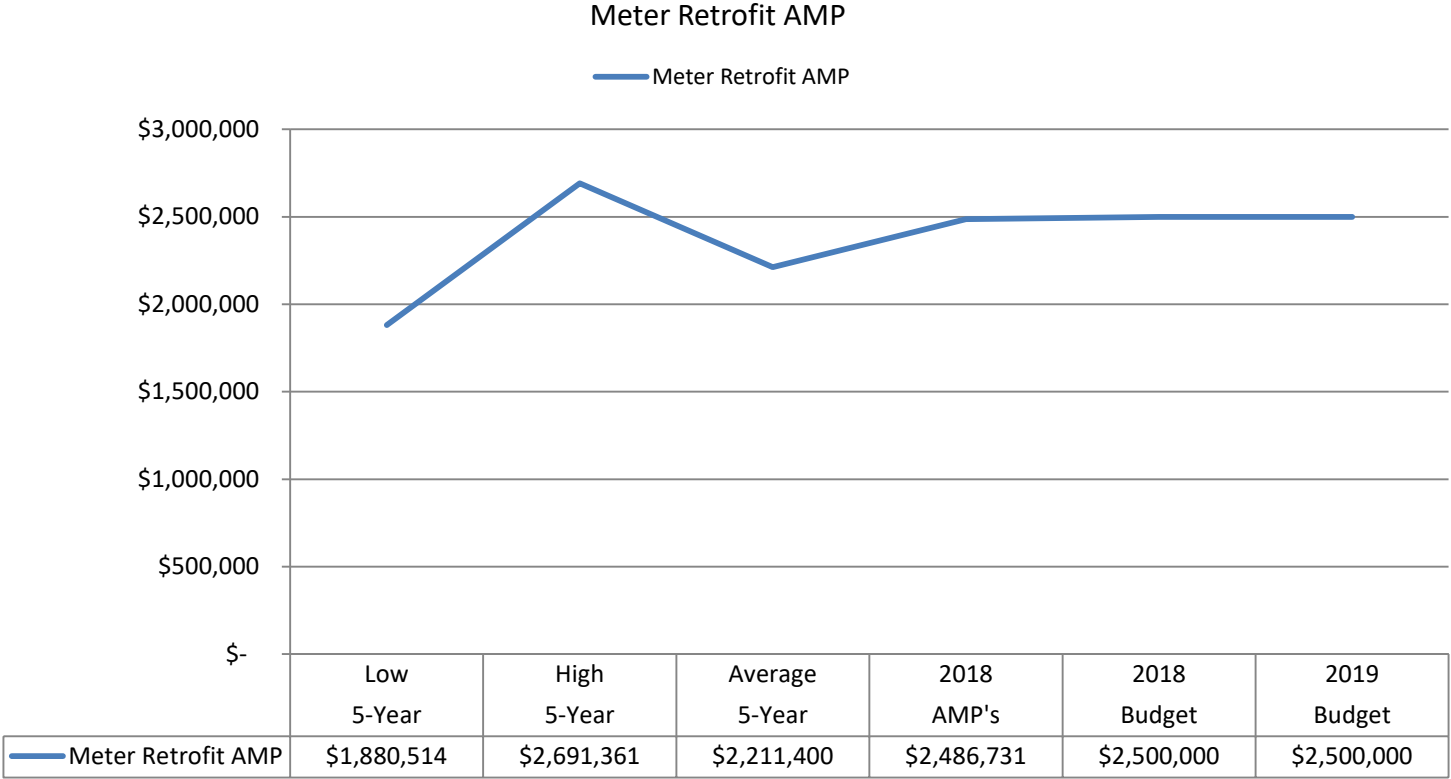
Capital Costs Next 25 Years

- Distribution Main Replacements
- Meter Retrofit Program
- Transmission Main Asset Management Plan
- Buildings and Structures Asset Management Plan
- Other Re-Occurring Annual Capital Costs (Not Included in Asset Management Plans)
- Meter Replacement and Repair Program
- Groundwater Well Replacement
- Reservoir and Booster P.S. Asset Management Plan
- Other Capital Needs from 2009 Water System Master Plan1
- SCADA Master Plan



Over the Next 25 Years, Capital Costs Continue to be Underfunded.
Funding Level Assumes Board Approved Rate Increases occur as Scheduled.

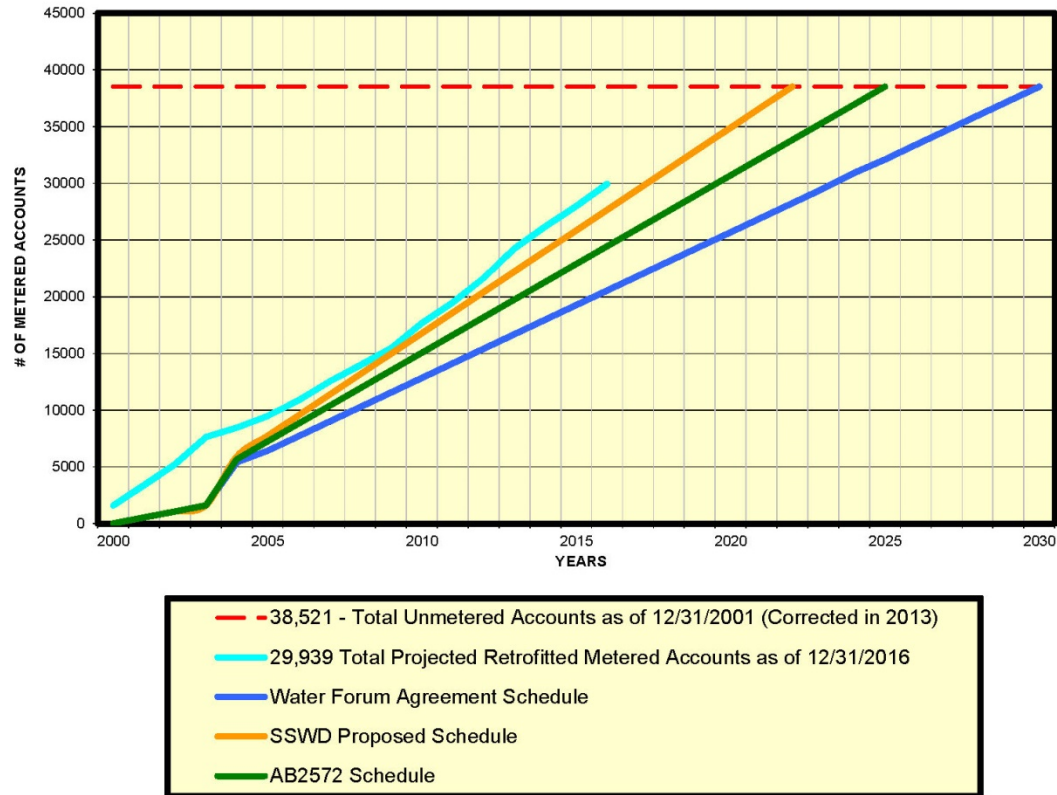
Water Meter Retrofit Program



Meters expected to be installed per Meter Retrofit Plan in 2017, 2018 and 2019 is 1,283, 1290 and 1230. Voluntary Meter installations in 2017, 2018 and 2019 is expected to be 15 each year.

Water Meter Retrofit Program

SSWD 30 YEAR METERING PLAN (RESIDENTIAL)



CIP Project Detail

Meter Replacement & Repair Costs

| 5-Year Low | 5-Year High | 5-Year Average | AMP 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|-------------|----------------|----------------|
| \$ 80,975 | \$ 715,337 | \$ 277,900 | \$ 393,512 | \$ 490,000 | \$ 490,000 |

2018/19 Projects

| | | |
|------------------------------------------------------------|------------|------------|
| Replace obsolete large meters (>3") | 140,000 | 140,000 |
| Replace/repair meters that have outlived their useful life | 350,000 | 350,000 |
| | \$ 490,000 | \$ 490,000 |

Per Water Meter Asset Management Plan, beginning in 2016 a new program to replace water meters installed in 1990's began.

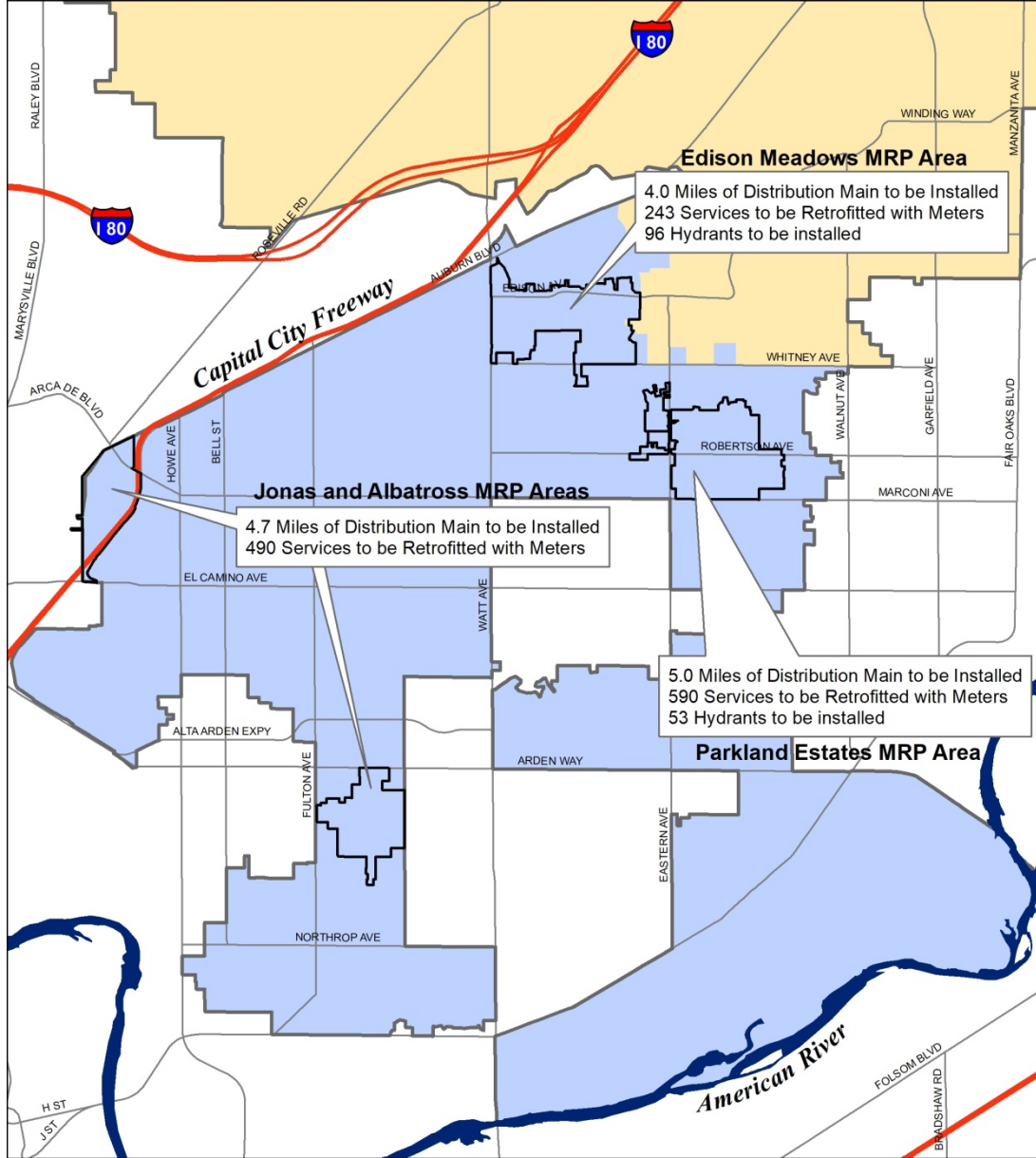
CIP Project Detail

Distribution Main Replacement Costs

| 5-Year Low | 5-Year High | 5-Year Average | AMP 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|---------------|---------------------|---------------------|
| \$ 9,674,096 | \$ 14,672,460 | \$ 11,523,200 | \$ 13,075,543 | \$ 8,350,000 | \$ 8,850,000 |

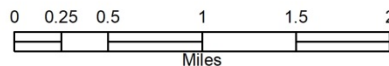
2018/19 Projects

| | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Parkland Estates, construction phase 2, and Edison Meadows, construction, and Jonas Area main replacement, design, and Pre-purchase of 30,000 linear feet Ductile Iron Pipe for 2019 | \$ 7,700,000 | \$ 8,000,000 |
| Various small main replacement projects | 600,000 | 600,000 |
| McClellan line replacements | 50,000 | 250,000 |
| | <u>\$ 8,350,000</u> | <u>\$ 8,850,000</u> |



Legend

- Distribution Main Replacement Areas
- North Service Area
- South Service Area



**Proposed 2018-2019
 Distribution Main Projects**

Base Data: Sacramento County Gis Base Map
 Projection: CA State Plane 2, NAD83
 Scale: No Scale
 Prepared by: JWS, SSWD
 Sacramento, CA - September 27, 2017
 Main Replacements-2018-2019.mxd

CIP Project Detail

Well Replacement Costs

| 5-Year Low | 5-Year High | 5-Year Average | AMP 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|--------------|----------------|----------------|
| \$ 377,974 | \$ 3,099,875 | \$ 1,277,000 | \$ 3,684,926 | \$ 4,200,000 | \$ 4,000,000 |

2018/19 Projects

Design and construction of 2 new wells, and acquisition of additional land for future wells

| | |
|--------------|--------------|
| \$ 4,200,000 | \$ 4,000,000 |
| \$ 4,200,000 | \$ 4,000,000 |

CIP Project Detail

Transmission Main Costs

| 5-Year Low | 5-Year High | 5-Year Average | AMP 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|-------------|----------------|----------------|
| \$ - | \$ 31,866 | \$ 6,400 | \$ 178,303 | \$ 550,000 | \$ 1,850,000 |

2018/19 Projects

Install impressed current cathodic protection to each District's major transmission pipelines (CTP, Walerga Pipeline, Antelope North Pipeline, Mission Ave Pipeline and Bell/Northrop Pipeline)

\$ 50,000 \$ 450,000

Improve and complete the transmission network in the NSA that is weak and not currently connected in many parts.

\$ 650,000 \$ 1,400,000

\$ 700,000 \$ 1,850,000

Asset Management Plan called for an equal amount of repair/replacement costs each year.

CIP Project Detail

SCADA System Costs

| 5-Year Low | 5-Year High | 5-Year Average | AMP 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|-------------|----------------|----------------|
| \$ 2,341 | \$ 404,802 | \$ 186,900 | \$ - | \$ 60,000 | \$ 60,000 |

2018/19 Projects

| | | |
|----------------------------------------------|-----------|-----------|
| Complete SCADA at well 12 and N20 Arbors PRV | \$ 60,000 | \$ 60,000 |
| | \$ 60,000 | \$ 60,000 |

Asset Management Plan called for an expanded RTU Pilot Study and SCADA System completion, which includes purchasing and installing SCADA system components on 24 remote water facility sites that currently do not have SCADA.

CIP Project Detail

Reservoir and Booster P.S. Costs

| 5-Year Low | 5-Year High | 5-Year Average | AMP 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|---------------------|------------------------|------------------------|
| \$ - | \$ 221,300 | \$ 79,100 | \$ 118,869 | \$ 200,000 | \$ 630,000 |

2018/19 Projects

| | | |
|------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Tank Inspections and Repairs - Walnut Elevated tank and Watt/Elkhorn Reservoir and demolition of Tank #769 | \$ 100,000 | \$ 30,000 |
| Spot Painting & Repairs various District's above ground storage reservoirs and miscellaneous well sites | \$ 100,000 | \$ 600,000 |
| | <u>\$ 200,000</u> | <u>\$ 630,000</u> |

CIP Project Detail

Other Re-Occurring Capital Costs

| 5-Year Low | 5-Year High | 5-Year Average | Estimate 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|------------------|----------------|----------------|
| \$ 1,149,924 | \$ 2,774,657 | \$ 1,960,800 | \$ 3,732,473 | \$ 2,350,000 | \$ 1,690,000 |

2018/19 Projects

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Well Rehabilitation - investigate and/or rehab various well sites and improve/modify existing entertie with the City of Sacramento | \$ 1,000,000 | \$ 1,000,000 |
| Wellhead Treatment - replace/repair existing wellhead treatment or chemical feed system on an as needed basis, and construction of manganese treatment facility at the Verner well | 910,000 | 250,000 |
| Engine Generator Compliance | 240,000 | 240,000 |
| Lowering/Raising Valve Boxes | 200,000 | 200,000 |
| | \$ 2,350,000 | \$ 1,690,000 |

CIP Project Detail

Other Capitalized Project Costs

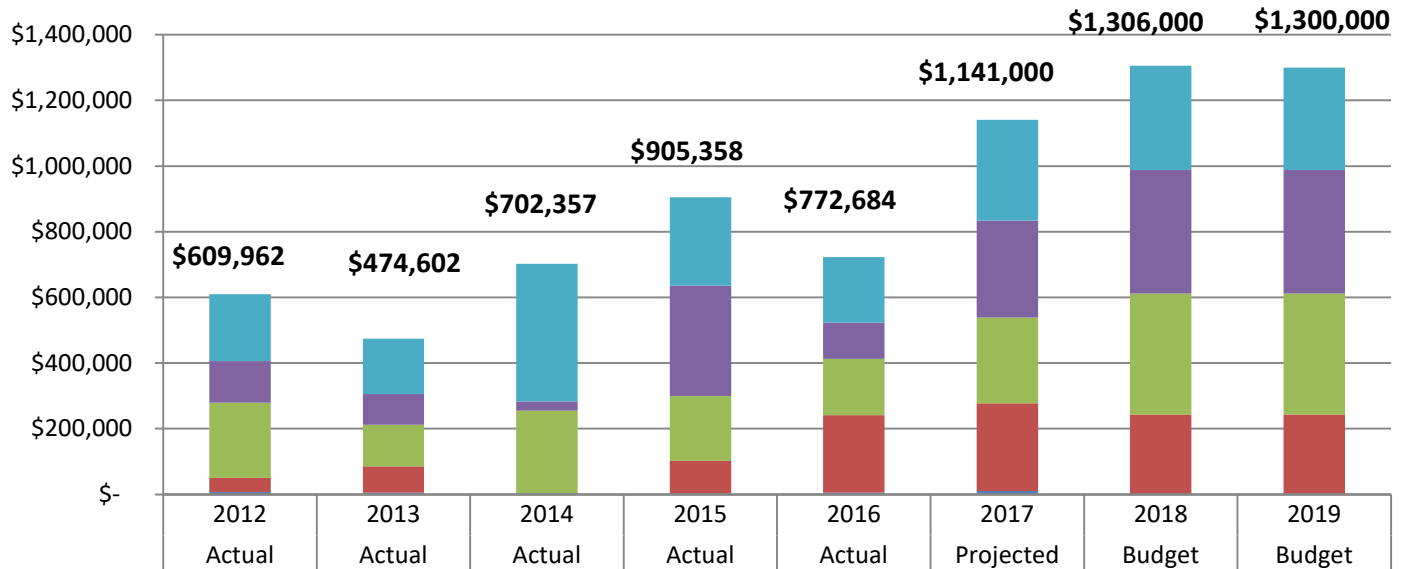
| 5-Year Low | 5-Year High | 5-Year Average | Estimate 2018 | Budget 2018 | Budget 2019 |
|---------------|----------------|-------------------|------------------|----------------|----------------|
| \$ 105,869 | \$ 780,345 | \$ 417,100 | \$ - | \$ 250,000 | \$ 100,000 |

2018/19 Projects

| | | |
|-----------------------------------------------------------------|------------|------------|
| Electrical Arc Flash Hazard Modifications at Various Well Sites | 200,000 | 50,000 |
| Right of way/easement acquisitions | 50,000 | 50,000 |
| | \$ 250,000 | \$ 100,000 |

OCB Budget

OCB Project Costs 2012 to 2019



| | 2012 Actual | 2013 Actual | 2014 Actual | 2015 Actual | 2016 Actual | 2017 Projected | 2018 Budget | 2019 Budget |
|----------------------------|----------------|----------------|----------------|----------------|----------------|-------------------|----------------|----------------|
| Information Technology | \$203,664 | \$168,850 | \$419,552 | \$269,607 | \$200,060 | \$306,800 | \$318,500 | \$312,400 |
| Maintenance | \$126,929 | \$93,321 | \$27,660 | \$336,293 | \$109,647 | \$296,000 | \$376,000 | \$376,000 |
| Operations | \$228,839 | \$126,581 | \$251,745 | \$197,310 | \$171,914 | \$260,700 | \$368,500 | \$368,600 |
| Vehicles/Fleet | \$43,308 | \$80,500 | \$- | \$99,729 | \$235,576 | \$267,500 | \$243,000 | \$243,000 |
| Office Furniture/Equipment | \$7,222 | \$5,350 | \$3,400 | \$2,419 | \$5,487 | \$10,000 | \$- | \$- |

Discussion of individual line items appear on subsequent pages.

OCB Project Detail

Information Technology Costs

| 5-Year Low | 5-Year High | 5-Year Average | Budget 2018 | Forecast 2019 |
|---------------|----------------|-------------------|----------------|------------------|
| \$ 168,850 | \$ 419,552 | \$ 252,300 | \$ 318,500 | \$ 312,400 |

2018/19 Projects

| | |
|-------------------------------|------------|
| Hardware Refresh Program | \$ 108,500 |
| Software Enhancements/Modules | 160,000 |
| Server Room | 50,000 |
| | \$ 318,500 |
| | \$ 312,400 |

2017 budget was \$306,800

OCB Project Detail Maintenance

| 5-Year Low | 5-Year High | 5-Year Average | Budget 2018 | Forecast 2019 |
|---------------|----------------|-------------------|----------------|------------------|
| \$ 27,660 | \$ 336,293 | \$ 138,800 | \$ 376,000 | \$ 376,000 |

2018/19 Projects

| | |
|---------------------------------------------------------------------------|------------|
| Building and Structures Maintenance | \$ 95,000 |
| HVAC/Roof/Building repairs | 30,000 |
| Walnut Facility - Exterior Seal South Wall Shop | 12,000 |
| Walnut Facility - Distribution Foreman & Environmental Compliance Remodel | 62,000 |
| Walnut Facility - Window Covering Replacement | 5,000 |
| Trailer Replacement - Trailer # 168 & 169 | 20,000 |
| Rekey all Facilities | 12,000 |
| Gazebo, Bathroom and Kitchen Roof and Fascia Antelope Facility | 140,000 |
| | \$ 376,000 |
| | \$ 376,000 |

2017 Budget was \$296,000.

OCB Project Detail

Operations Project Costs

| 5-Year Low | 5-Year High | 5-Year Average | Budget 2018 | Forecast 2019 |
|---------------|----------------|-------------------|----------------|------------------|
| \$ 126,581 | \$ 251,745 | \$ 195,300 | \$ 368,500 | \$ 368,600 |

2018/19 Projects

| | |
|---------------------------------------------------------|------------|
| Asphalt Repair/Replacement/Sealing - Various Well Sites | \$ 20,000 |
| Fence Replacement - 3 Well Sites | 21,000 |
| Peristaltic Chemical Dosing Pumps | 27,500 |
| UCMR 4 Monitoring | 120,000 |
| Ditch Witch FX65 Vacuum Excavation System | 103,000 |
| Compact Mini Excavator | 62,000 |
| Meter Vault Lid Replacement | 15,000 |
| | \$ 368,500 |
| | \$ 368,600 |

2017 budget was \$260,700

OCB Project Detail

Vehicles/Fleet

| 5-Year Low | 5-Year High | 5-Year Average | Budget 2018 | Forecast 2019 |
|---------------|----------------|-------------------|------------------------|-------------------------|
| \$ - | \$ 235,576 | \$ 91,800 | \$ 243,000 | \$ 243,000 |

2018/19 Projects

| | |
|---------------------------------------------|-------------------|
| Vehicle Replacement/Right Size - Truck #2 | 75,000 |
| Vehicle Replacement/Right Size - Truck # 11 | 33,000 |
| Vehicle Replacement/Right Size - Truck # 14 | 45,000 |
| Vehicle Replacement/Right Size - Truck # 47 | 45,000 |
| Vehicle Replacement/Right Size - Truck #148 | 45,000 |
| | \$ 243,000 |
| | \$ 243,000 |

2017 budget was \$267,500 – Replaced three Trucks and purchase one new truck for the new production operator position .

Debt Service Forecast

Debt Service Forecast

| 5-Year | 5-Year | 5-Year | Budget | Forecast |
|--------------|--------------|--------------|--------------|--------------|
| Low | High | Average | 2018 | 2019 |
| \$ 7,425,000 | \$ 9,895,112 | \$ 7,944,615 | \$ 7,700,000 | \$ 7,720,000 |

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Principal | \$ 5,994,000 | \$ 3,580,000 | \$ 3,675,000 | \$ 3,795,000 | \$ 3,945,000 | \$ 4,060,000 | \$ 4,240,000 | \$ 4,390,000 |
| Interest | 3,901,112 | 3,849,356 | 3,792,909 | 3,630,000 | 3,560,697 | 3,483,002 | 3,460,000 | 3,330,000 |
| Total Debt Service | <u>\$ 9,895,112</u> | <u>\$ 7,429,356</u> | <u>\$ 7,467,909</u> | <u>\$ 7,425,000</u> | <u>\$ 7,505,697</u> | <u>\$ 7,543,002</u> | <u>\$ 7,700,000</u> | <u>\$ 7,720,000</u> |

2018/19 forecast assumes a variable interest rate of 3.86%. Average interest rate for total debt portfolio is 4.35%.

2018 Budget and 2019 Forecast Summary

| | <u>2016 Actual</u> | <u>2016 Amended Budget</u> | <u>Actual As Of 8/31/17</u> | <u>2017 Projected</u> | <u>2017 Amended Budget</u> | <u>2018 Proposed Budget</u> | <u>2019 Forecast</u> |
|-----------------------------|----------------------|----------------------------|-----------------------------|-----------------------|----------------------------|-----------------------------|----------------------|
| Income From Customers | \$ 41,083,028 | \$ 41,410,000 | \$ 28,321,477 | \$ 43,054,000 | \$ 43,726,000 | \$ 45,020,000 | \$ 45,250,000 |
| Water Transfers | - | - | - | - | 1,992,000 | - | - |
| Total Other Income | <u>1,483,443</u> | <u>2,905,000</u> | <u>1,042,039</u> | <u>1,488,000</u> | <u>1,780,000</u> | <u>1,431,000</u> | <u>1,354,000</u> |
| Total Revenue | <u>\$ 42,566,471</u> | <u>\$ 44,315,000</u> | <u>\$ 29,363,516</u> | <u>\$ 44,542,000</u> | <u>\$ 47,498,000</u> | <u>\$ 46,451,000</u> | <u>\$ 46,604,000</u> |
| Budgets: | | | | | | | |
| Operations and Maintenance | 19,680,746 | 17,895,000 | 12,199,230 | 19,545,000 | 21,311,000 | 21,915,000 | 22,492,000 |
| Capital Improvement Program | 17,210,445 | 18,796,000 | 6,335,378 | 14,010,000 | 16,975,000 | 18,950,000 | 20,170,000 |
| Operating Capital Program | 722,684 | 974,000 | 571,122 | 1,166,000 | 1,166,000 | 1,306,000 | 1,300,000 |
| Debt Service (Forecast) | <u>7,505,697</u> | <u>7,605,000</u> | <u>2,322,001</u> | <u>7,543,000</u> | <u>7,770,000</u> | <u>7,700,000</u> | <u>7,720,000</u> |
| Total Costs | <u>45,119,572</u> | <u>45,270,000</u> | <u>21,427,731</u> | <u>42,264,000</u> | <u>47,222,000</u> | <u>49,871,000</u> | <u>51,682,000</u> |
| Change in Reserve Balance | (2,553,101) | (955,000) | 7,935,785 | 2,278,001 | 276,000 | (3,420,000) | (5,078,000) |
| Reserve (Cash) Balance | <u>\$ 40,988,408</u> | <u>\$ 40,033,408</u> | <u>\$ 48,924,193</u> | <u>\$ 43,266,409</u> | <u>\$ 41,264,408</u> | <u>\$ 39,846,409</u> | <u>\$ 34,768,409</u> |

QUESTIONS

Sacramento Suburban Water District

Reserve Policy

Adopted: August 18, 2003

Revised: September 20, 2004; August 21, 2006; August 18, 2008, November 19, 2012,
January 27, 2014; November 16, 2015, October 17, 2016; April 17, 2017**100.00 Purpose of the Policy**

The District will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

The primary purposes of this policy are: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

200.00 Policy**200.10 Fund Classification Types**

The District shall maintain three fund classifications that collectively comprise the District's reserve fund balance. Fund classifications are a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon it. The fund classifications are - Restricted funds, Committed funds and Assigned funds, with distinction among the funds based on the relative strength of the constraints that control how amounts can be spent.

Restricted funds include amounts that can be spent only for specific purposes stipulated by law or third parties, such as grantors or creditors. Committed funds include amounts that can be used only for specific purposes as determined by Board action. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

200.20 Restricted Funds Classification

Restricted funds are those financial assets subject to enforceable third party constraints, such as those imposed by creditors, grantors, laws or regulation.

Debt Service Reserve Fund

Financial assets held by the District per bond or certificate-of-participation (COP) debt covenants. The amount of assets to be held as debt service reserves is determined at the time of debt issuance. Such assets may only be used to repay the outstanding bond or COP for which the assets were placed in reserve as long as the bond or COP remains outstanding.

200.30 Committed Funds Classification

Committed funds are those financial assets identified by the Board for specific purposes as determined by Board resolution or ordinance. Such financial assets are to be utilized only as directed by the Board.

Facilities Reimbursement Fund

As established by the Board in the District's Regulations Governing Water Service (Regulations), the District will retain a percentage of Facility Development Charges (FDC) collected each fiscal year for the purpose of repaying individuals or businesses who were required to install up-sized lines or extension facilities at the request of the District. Disbursements will be made in accordance with the Regulations, including the release of unexpended funds into the District's unrestricted net position.

200.40 Assigned Funds Classification

Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board as needs arise.

Emergency/Contingency Fund

Financial assets held for purposes of continued operations during times of severe economic distress due to events that require an immediate and/or significant use of cash. Such severe economic situations may include otherwise insurable events for which the timely receipt of cash may be delayed. The District shall target a balance of twenty-five percent (25%) of its following year's anticipated annual revenues in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be approved by the Board.

Prior to amounts being expended from this fund, the District shall establish a contingency plan that addresses, at a minimum:

1. The reason(s) for expenditures from this fund.
2. Amounts expected to be expended.
3. The funds replenishment timeline and funding source.

Operating Fund

Financial assets held primarily in the form of cash and cash-equivalents for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The District shall target a minimum balance in short-term investments and/or cash equal to twenty-five percent (25%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. Conditions for utilization of these reserves and a plan for fund replenishment will be determined by the Board at annual budget time.

The operating fund reflects the timing difference between billing for revenues and payment of expenses. The target level is a financial measure or guideline. If the fund level drops below the twenty-five percent target balance, that is a sign for staff to review the fund and, if necessary, bring recommendations to the Board to assure the fund will not continue to decline.

Rate Stabilization Fund

Financial assets held for purposes of managing cost variability in obtaining, treating and delivering potable surface water and groundwater. This Fund is focused on consumption fluctuations related to customer demand and purchasing of surface water as part of the District's conjunctive use efforts. Consumption charges established in the rate setting process forecast customer demand based on a repeat of average, recent climactic conditions. Financial fluctuations occur when situations vary from the assumption. The District shall target a balance of fifty percent (50%) of its expected upcoming year consumption revenues in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be directed by the Board at annual budget time.

Interest Rate Risk Management Fund

This fund is derived from earnings based on financial assets held as short-term investments pursuant to interest rate risk exposure assumed by the District upon the issuance of floating-rate debt. The amount of investments from which earnings are derived and accumulated will be determined at the time of debt issuance. Earnings on such investments will be used to repay a portion of the interest expense on the outstanding floating-rate bond or COP as long as the bond or COP is subject to interest rate risk exposure. This fund will be reduced in line with the amortized balance of the interest-rate swap(s).

Grant Fund

Financial assets held for purposes of funding the "local cost share" and advance payment of eligible reimbursable costs on capital projects funded partially from grant awards. As eligibility for potential grant awards requires the District to demonstrate financial viability to fund anticipated project costs, the District shall maintain a minimum balance equal to the combined sum of anticipated costs for those projects considered grant eligible in the upcoming biennial period. Conditions for utilization of such reserves and a plan for fund replenishment will be determined at the time of grant award.

Capital Asset Fund

Financial assets held for purposes of funding District capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. Through the annual budget process, staff shall recommend capital replacement projects and any necessary appropriations from this fund. The District shall target a balance to sufficiently fund anticipated capital improvement project replacement cost deviations above the CIP funding level. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

Facilities Development Charge Fund

Financial assets held for expenditure on growth/capacity-related capital asset projects only. Amounts deposited into this fund come from unexpended facility development charges collected from developers (see related Facilities Reimbursement Fund in section 200.30 above.) These growth/capacity-related capital asset projects form the cost-basis and legal nexus for the establishment and collection of the Facility Development Charges. This fund is dependent upon customer growth. Therefore, there is no prescribed target or minimum balance.

300.00 Disposition of “One-Time” Revenues

“One-time” revenues are revenues of an unusual or infrequent nature which are likely not the result of the District providing services and producing and delivering goods in connection with the District’s principal ongoing operations (e.g. legal settlement). Unless specifically earmarked by Board action otherwise, “one-time” revenues should be transferred to the appropriate reserve fund which best represents the reason for the “one-time” revenue.

400.00 Target Funding Level

A summary of reserve fund classifications and funding levels is shown below:

| Fund Classification | Funding Level |
|------------------------------------|------------------------------------------------------------------------------------------------------------|
| Debt Service Reserve Fund | Determined upon bond issuance. |
| Facilities Reimbursement Fund | 20% of FDC charges collected annually less developer payouts. |
| Emergency/Contingency Fund | 25% of annual revenues. |
| Operating Fund | 25% of annual operating and debt service expenditures. |
| Rate Stabilization Fund | 50% of water consumption revenues. |
| Interest Rate Risk Management Fund | Accumulated earnings on short-term investments above 3.283% on the unhedged portion of variable-rate debt. |
| Grant Fund | Sufficient to pay for “local cost share” on all outstanding and applied-for grants. |

| | |
|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|
| Capital Asset Fund | Sufficient to fund CIP projects above the amount CIP funding amount anticipated at rate setting or budget preparation time. |
| Facilities Development Charge Fund | Remaining amounts of FDC Charges after amounts used by Facilities Reimbursement Fund expended. For new infrastructure. |
| Minimum Reserve Funding Target | \$40 million |

500.00 Authority

The General Manager is responsible for the appropriate accounting and regular reporting of the District’s reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

600.00 Procedure

District staff will maintain procedures for each fund classification, to be approved by the General Manager, and in conformance with this Policy.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five (5) year period to the established or re-established target as directed by the Board.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of revenue dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

700.00 Policy Review

This Policy will be reviewed annually as part of the budget adoption process.



Finance and Audit Committee Agenda Item: 4

Date: October 2, 2017

Subject: Set Next Finance and Audit Committee Meeting

Staff Contact: Daniel A. Bills, Finance Director

Recommended Committee Action:

Approve holding a Committee meeting on Monday, April 9, 2018 at 3:00 pm.

Discussion:

Agenda items for this meeting is expected to include a review of the 2017 Comprehensive Annual Financial Report (CAFR) and annual audit.

Strategic Plan Alignment:

Finance – 4.G. Produce annual financial statements and supporting documentation to allow outside auditors to provide the District with unqualified audit opinions.