



MIDDLE FORK PROJECT
FINANCE AUTHORITY

General Financial Policies

Adopted: April 25, 2013
Amended with Revisions Approved on October 17, 2013

Middle Fork Project Finance Authority

General Financial Policies

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1.0 PURPOSE

These General Financial Policies provide a framework to guide the Middle Fork Project Finance Authority's (MFPFA or Authority) decision-making with respect to financial activities and financial planning. This Policy addresses budget, capital planning, reserves, net revenue distribution and other related financial policies for the Authority.

2.0 GENERAL POLICIES

2.1 The Authority will manage its financial assets in a sound and prudent manner, according to Policies adopted by the Authority Board of Directors.

2.2 The Authority will maintain sound financial practices in accordance with generally accepted accounting principles, legal documents (JPA and debt agreements) State and Federal laws and regulations. Should there be a conflict, these authoritative sources will be followed.

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3.0 BUDGET POLICY:

3.1 Authority to Produce Budgets

- 3.1.1 Article 6 of the Joint Exercise of Powers Agreement for the Middle Fork Project Finance Authority (JPA) sets forth a number of requirements related to budgeting and expenses. In the event of a conflict between these policies and the JPA, the JPA shall dictate.

3.2 General Conditions

- 3.2.1 The Middle Fork Project Finance Authority shall appropriate sufficient funds to provide for the efficient operation of the MFP through the adoption of an Annual Budget.
- 3.2.2 The Annual Budget shall incorporate planned expenses for the basic operation and maintenance of the MFP (Operational Budget), additions and betterment projects (Capital Budget), designation to and from reserves, changes in debt, and distributions to the Agency and the County.
- 3.2.3 The Annual Budget shall identify amounts encumbered for consulting and construction contracts that span more than one fiscal year.
- 3.2.4 Budgetary Control: The Authority's budgetary control for the Operational Budget will be maintained at the total of the Operational Budget for each budget year. The Capital Budget will be maintained at both the 5-year total amount authorized for each project and the total appropriated Capital Budget amount for each budget year. Budget Revisions that require an increase to the annual Operational Budget, the Capital Budget, or for a Project Budget's authorized 5-year budget amount shall be authorized by the Authority Board prior to incurring the increased amount. The Authority Board may consider revisions to the Annual Budget at any time.

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- 3.2.5 Based on urgent funding needs, the Authority Treasurer may request authorization from the Executive Director of the Authority or designee, with advanced written notice to the Authority Secretary or designee, to increase a Project Budget beyond the annual appropriated amount if such increase does not exceed the total appropriated Capital Budget for that year, and does not exceed a Project Budget's authorized 5-year budget amount. The Authority Board shall be notified of any such Project Budget increase at its next regularly scheduled Board meeting.
- 3.2.6 Once the Authority Board approves the Annual Budget, funds shall be appropriated and encumbered for the budgeted purposes and the expenditure of those funds shall be deemed authorized.
- 3.2.7 Failure to approve the annual budget:
- (1) Authority: Section 6.04 (c) of the JPA provides:
- If the Authority fails to approve the Annual Budget by November 30 each year the matter shall be referred for dispute resolution as provided in Section 2.09.*
- While the dispute is pending resolution the Authority shall continue to fully appropriate and encumber funds for the basic operation and maintenance of the MFP, debt service, and to ensure the completion of any authorized consulting or construction contracts that will extend beyond the end of the current fiscal year as submitted as if the budget had been approved. However, if there is any dispute concerning any amount in the Annual Budget for additions and betterments, the amount in dispute shall be sequestered and shall not be distributed to the parties until the dispute has been resolved.*
- 3.2.8 Reporting: The Authority Treasurer shall submit quarterly budget reports to the Authority Board.

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- (1) The report will include the annual budget and actual amounts to date for revenue and expense, and a summary of variances with explanations.
- (2) The report will include a statement of the reserve accounts including beginning balances, targets, activity and current balances.

3.3 Budget Timeline

3.3.1 General: The Finance Authority's fiscal year is the calendar year (January 1 - December 31). The regularly scheduled meetings of the Finance Authority Board of Directors are scheduled on the third Thursdays of January, April, July and October.

3.3.2 Annual Budget Timeline

- (1) Draft Budget: On or before August 1st PCWA will prepare a draft Annual Budget for the ensuing year and in consultation with the County, will work together to develop the Proposed Annual Budget to submit to the Authority Board annually on or before its regular October meeting.
- (2) Capital Plan: PCWA will develop a proposed capital project list with related costs and project expenditure schedule for inclusion with the draft Annual Budget.
- (3) Annual Budget Approval: Included with the Authority Board's October agenda, PCWA shall submit the Proposed Annual Budget as developed above to the Finance Authority for approval at the October meeting preceding the fiscal year for which the budget is to take effect.
- (4) Mid-Year Review Budget: The Agency will prepare a budget update after the final snow survey and by June 21st of the current fiscal year. The budget update shall give consideration to an updated estimate of the revenues and expenditures using actual hydrologic conditions and current energy market conditions, and

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expenses. If warranted, budget revisions may be submitted to the Authority Board of Directors in July.

- (5) Final Year-end Budget Report: Year-end budget and actual amounts along with carryover amounts, if any, will be provided to the Authority Board of Directors in April.

3.4 Annual Budget

3.4.1 Revenue

- (1) Revenue will be forecast for the current budget year and each of the following four years thereafter.
- (2) Revenue in the Proposed Annual Budget: MFP revenue is subject to significant volatility due to variations in hydrology, energy markets and other factors, therefore energy sales revenues shall be based on 80% of the average generation for the past ten years.

3.4.2 Expenses

- (1) Expenses will be proposed for the current budget year and forecast for each of the following four years thereafter.
- (2) Expenditure of funds will be consistent with the priorities in the JPA Agreement, the 2006 Bond Purchase Contract, and any other obligations that the Board authorizes that affect expenditures.

3.5 Working Cash

3.5.1 The Authority Treasurer is authorized to expend and/or transfer funds from revenue received by the Authority consistent with the authorized Annual Budget expenditures as needed for MFP operations, maintenance, capital appropriation and other current obligations.

3.5.2 Working Cash shall be maintained in an amount sufficient to accommodate normal fluctuations in cash flow associated with MFP operations and other cash flow needs.

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4.0 CAPITAL PLAN POLICY

4.1 General

The MFP has infrastructure assets that require upgrades and replacement of equipment and facilities. These capital projects typically require multi-year phases of planning, design and construction until completed. In the annual budgeting process, capital upgrades and replacements must be identified, planned, evaluated and prioritized. Capital projects will be funded from the Authority's Capital Reserve and/or additional debt and/or available current revenue. The funding for each capital project shall be identified in the Capital Plan and authorized by the Authority Board through the annual budget process. The Authority will follow the Agency's capitalization policies.

4.2 Capital Plan

As part of the annual budgeting process, the Capital Plan, the components of which are outlined herein, will be updated.

- 4.2.1 Capital Plan will be updated annually based on the capital requirements of the MFP.
- 4.2.2 Except under emergency conditions, capital projects costing more than one million dollars (\$1,000,000), considered Major Projects, must be introduced and authorized through the Capital Plan.
- 4.2.3 The Capital Plan will prioritize capital projects into three categories:
 - (1) Potential Projects: Projects under consideration, but not yet authorized.
 - (2) Planned Projects: Projects authorized by the Authority Board for allocation of funds, but not yet authorized for design and construction expenditure of funds.
 - (3) Authorized Projects: Projects authorized for design and construction by the Authority Board.

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- 4.2.4 PCWA will provide Project descriptions, justification, estimated costs, and a proposed construction and expenditure schedule for each proposed project.

4.3 Capital Project Approvals

- 4.3.1 Through the Capital Plan, the Authority Board will designate projects as “Potential,” “Planned” or “Authorized” Projects.

- (1) For newly proposed Planned Projects, PCWA will provide the Authority Board with a preliminary funding plan that includes a recommendation of sources of funds. Authorized of the Planned Project shall include allocation of funds to the Capital Reserve.

4.4 Emergency Expenditures

- 4.4.1 Emergency or catastrophic events are those that create an immediate need for expenditures in order for the MFP to recover and restore operational capability. Under emergency conditions, expenditures necessary to restore operational capability will not be required to go through the annual capital planning process. If an emergency accelerates a Planned Project, funds collected for this project in the Capital Reserve shall be used prior to other funding sources.

5.0 RESERVE POLICY

5.1 General

The Authority JPA requires the establishment and maintenance of prudent reserves. Reserve shall be established in the following three categories: Operating, Capital, and Emergency. As part of the annual budget process, a report of reserve account activity shall be presented to the Authority Board by the Authority Treasurer. The report shall include a summary of the use of reserves in the prior year and shall recommend annual and full funding levels. Reserve account funding allocations will be authorized through the annual budget process and may be revised by the Authority Board at any time.

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5.2 Specific Reserve Accounts

5.2.1 Operating Reserve

- (1) Purpose: The Operating Reserve account provides readily available cash to operate the MFP under conditions of significantly reduced revenue due to hydrology, energy prices and/or prolonged minor outages or unanticipated variations in expenses.
- (2) Full Funding Target: Operating reserve target amount is set at a minimum of one year of operating expenses.
- (3) Funding Source: Contributions to the Operating Reserve from current revenue shall be included and authorized through the Annual Budget process.
- (4) Authorization Needed for Use: The Operating Reserve account shall be used for the purposes noted above based on determination of need with the prior approval of the Authority's Executive Director and Secretary, or Board. The Authority Board shall be notified of any use of Operating Reserves.

5.2.2 Capital Reserve

- (1) Purpose: The Capital Reserve account is intended to work as a sinking fund to provide funding for capital projects when needed for Planning and Design, and Construction.
- (2) Funding Target: Annual contributions to the Capital Reserve account will be based on funding needs of Authorized and Planned Projects as presented in the 5-year Capital Plan.
- (3) Funding Source: Contributions to the Capital Reserve from current revenue shall be included and authorized through the Annual Budget process.
- (4) Authorization Needed for Use: Use of the Capital Reserve account funds shall be approved by the Authority Board through the

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annual budgeting process and throughout the year as capital projects are Board approved.

5.2.3 Emergency Reserve

- (1) Purpose: The Emergency Reserve account provides funding for significant unforeseen needs or events.
- (2) Full Funding Target: PCWA will prepare a study to determine a total amount of emergency funds that would be required under a severe outage contingency, along with a proposed strategy of insurance, available lines of credit and Emergency Reserve account funds that can respond to the emergency condition. This will define the target level of Emergency Reserve that would be required and, given its current level, an annual contribution needed to accomplish that target level. PCWA will annually assess the level of Emergency Reserve and propose recommended changes during the Annual Budget process.
- (3) Funding Source: Contributions to the Emergency Reserve from current revenue shall be included and authorized through the Annual Budget process.
- (4) Authorization Needed for Use: The Emergency Reserve account may be used for the purposes noted above based on determination of need with the prior approval of the Authority's Executive Director and Secretary, or Board. The Authority Board shall be notified of any use of Emergency Reserves.

5.3 Funding of Reserve Accounts

5.3.1 General

It is the Board's intentions that reserves are fully funded over a three year period to their annual target amounts before net revenue are distributed.

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Each of the remaining reserve accounts will have identified annual and full funding targets. When resources are limited, the priority for funding reserves or restoring reserves to established levels after use shall be as follows:

- (1) **First Priority: Operating Reserves.** It is prudent to aggressively contribute to Operating Reserves until the account reaches its established target. The Operating Reserve shall be fully funded before any distributions of net revenues. Additionally, after the use of Operating Reserves, this reserve shall be restored to target levels prior to any distribution of net revenue resources.
- (2) **Second Priority: Emergency Reserve.** The Emergency Reserve must be funded to the adopted Annual Budget funding level each year before any distribution of net revenues.
- (3) **Third Priority: Capital Reserves.** The Capital Reserve must be funded to targeted amounts each year before any distribution of net revenues.

6.0 NET REVENUE DISTRIBUTION POLICY

6.1 General

- 6.1.1 Revenue distribution by the Authority is governed by two legal obligations: the Authority JPA Agreement between Placer County (County) and Placer County Water Agency (PCWA or the Agency), dated January 10, 2006, and the Bond Purchase Contract between the MFPFA and the Placer County Treasurer, dated March 29, 2006. Pursuant to these agreements, beginning on April 1, 2015 the Authority Board may consider distribution of net revenue to the Agency and the County.
- 6.1.2 Net Revenues is defined as revenue received from the sale of electric energy less expenses for the basic operation and maintenance of the MFP (including prior year expenses incurred but not paid), additions and

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betterment projects, designation to and from reserves, debt payments and replenishment of working cash.

6.2 Periodic Distributions

- 6.2.1 Beginning August 2015 after the Mid-Year Review, and annually thereafter, if the net revenue forecast supports distribution of Net Revenues to the County and Agency, the Authority Board may authorize the Distributions of up to 1/3 of the Budgeted Net Revenue, based on available funds, on the last business day of August.
- 6.2.2 Beginning November 2015, and annually thereafter, the Authority Board may authorize the Distributions of up to an additional 1/3 of the Budgeted Net Revenue, based on available funds, on the last business day of November.

6.3 Annual True-Up Distribution

- 6.3.1 Beginning in 2016 and on or before the last business day of March following each fiscal year the Authority Treasurer will distribute any remaining previous year's Net Revenue.

7.0 AUDIT POLICY

7.1 General

- 7.1.1 The Audit Policy is to assist the MFPFA Board of Directors and management in effectively discharging of their fiduciary and administrative responsibilities regarding the required annual financial statement audit. Should changes occur in Federal, state or local laws regarding the auditing of public funds creating a conflict, the Federal, state or local regulations will be followed.
- 7.1.2 Annually, the Authority Treasurer shall coordinate a year-end financial statement audit of the Authority's financial transactions.
- 7.1.3 The annual financial statement audit shall be conducted in accordance with generally accepted auditing standards in the United States and shall include tests of accounting records and other procedures necessary to express an opinion.

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- 7.1.4 As the Authority's accounting and recordkeeping are performed by the Agency and the internal control environment is the same, the Authority shall use the same audit firm as the Agency.
- 7.1.5 The Authority Treasurer shall submit to the Authority Board the audited financial statements within 180 days after the close of each fiscal year.

8.0 INVESTMENT POLICY

8.1 General

- 8.1.1 In conformance with California Government Code Sections 53600, *et seq*, the Authority Treasurer shall establish and maintain a statement of investment policy.
- 8.1.2 Annually, during the first quarter of each year, the Authority Treasurer shall submit to the Authority Board the statement of investment policy for authorized use during that year.
- 8.1.3 All funds held by the Authority are subject to this Investment Policy.

9.0 DEBT MANAGEMENT POLICY

9.1 General

The Authority's overriding goal in issuing debt is to provide for the needs of the Middle Fork Project. When the Authority issues debt instruments and makes debt service payments, it will act with prudence, diligence, and attention to prevailing economic conditions. The Authority will also seek to minimize borrowing costs by ensuring proper prioritization of Authority resources and taking advantage of favorable economic conditions. Timing debt issuance to accommodate market interest rates and investor sentiment is an important means of minimizing the cost of debt and the financial burden on the system users. To accomplish this, the Authority will seek input on market conditions from financial consultants who closely monitor the financial markets. The Authority will adhere to the following legal requirements for the issuance of debt:

- The Joint Powers Agreement , which established the powers of the Authority;

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- State law, which authorizes the issuance of the debt;
- The Federal and state tax laws, which govern the eligibility of the debt for tax-exempt status;
- The Federal and state securities law, which govern disclosure, sale and trading of the debt. All proposed debt financings and re-financings shall be presented to and approved by the Authority Board. The Authority Treasurer will provide a preliminary proposal to the Board before final authorization is sought.

9.2 Financial Disclosure

The Authority Treasurer will meet ongoing disclosure requirements of nationally established and recognized municipal securities information repositories (NRMSIRs) and will maintain compliance with disclosure standards promulgated by state and national regulatory bodies. The Authority may also employ the services of firms that improve the availability of or supplement the Authority's NRMSIR filings.

9.3 Type of Debt

The Authority may finance acquisition or construction of projects and capital assets through the issuance and sale of municipal securities or other means. Authority long-term borrowing will primarily be for capital improvements or other projects with long-term benefit. The proceeds of debt obligations will be used for the cost of such acquisition or construction.

9.4 Investment of Bond Proceeds

The proceeds of the bond sales will be invested until used for the intended project in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The Authority's investment policies and bond indentures should be referred to for more details on objectives and criteria for investment of bond proceeds. All bond proceeds will be invested by the Authority in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issue.

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9.5 Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current, future beneficiaries or users and the JPA document. Generally, borrowings by the Authority should be of a duration that does not exceed the economic life of the improvement that it finances and where feasible should be shorter than the projected economic life.

9.6 Duties of the Authority Treasurer

The Authority Treasurer shall coordinate the administration and issuance of debt and is responsible for selecting the financing team and for the accuracy of disclosure and other bond related documents.

9.6.1 In addition to the Authority Treasurer, members of the management team and financial advisors may serve on the financing team, along with any other staff member(s). The Authority Treasurer will coordinate the issuance of all debt, including issuance size, debt structuring, pledging of repayment sources and method of sale. All borrowing requests or debt refunding proposals are to be communicated to and coordinated by the Authority Treasurer.

9.6.2 The Authority Treasurer working with the Authority Counsel will manage any legal activities that may arise with respect to issuance of the debt. Furthermore, after the bonds are issued, the Authority (acting through the Authority Treasurer) will be ultimately responsible for the following:

- Supervising, investing and administering the expenditure of bond proceeds;
- Collecting, or monitoring the collection of, revenues;
- Applying pledged revenues to pay operating expenses and debt service;
- Complying with all undertakings, covenants and agreements;
- Reviewing expenditures of any enterprise funded by the debt;

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- Filing of any reports required with various governmental regulators, a bond insurer or other credit enhancement provider, if any, and the credit rating agencies;
- Addressing any problem that may arise with respect to the debt, such as a shortfall in revenues, a tax audit or a regulatory issue;
- Preparing, reviewing and filing Annual Reports and Listed Event Notices under SEC Rule 15c2-12.

9.7 Restructuring of Debt

The Authority may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management.

9.8 Arbitrage Compliance

The Authority Treasurer shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the Federal government in a timely manner in order to preserve the tax-exempt status of the Authority's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with.

10.0 INSURANCE COVERAGE POLICY

10.1 Risk mitigation will balance strategies that blend insurance and reserve funding (self-insurance) to produce optimal protection of all assets. This balancing will take into account both the potential losses of power revenue, due to unplanned outages or catastrophic conditions, and variances on projected business operations due to hydrologic conditions or power market fluctuations. The Agency will identify appropriate insurance policies and levels of coverage, commensurate with regulatory requirements and prudent business practices, and will secure

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insurance for the MFP. The amount of the insurance will be budgeted in the Operational Budget.

- 10.2 Property insurance provides protection against risks to property, such as fire, theft or weather damage. This will include boiler and machinery as well as construction equipment.
- 10.3 General Liability insurance provides protection against risks that may include bodily injury or property damage caused by direct or indirect actions of the insured.
- 10.4 Business interruption insurance covers the loss of income, and the expenses incurred, after a covered peril interrupts normal business operations.
- 10.5 PCWA shall be required to provide a certificate of insurance and an additional insured endorsement for general liability and automobile liability policies, and it shall name the MFPFA, its directors, employees and volunteers as additional insureds.
- 10.6 For any claims related to the MFP, PCWA's insurance coverage shall be primary insurance as respects the MFPFA, its officers, officials, employees, and volunteers. Any insurance or self-insurance maintained by MFPFA, its officers, officials, employees, or volunteers shall be excess of PCWA's insurance and shall not contribute with it.

11.0 PROCUREMENT POLICY

- 11.1 The MFPFA grants all purchasing to the Agency. All Authority purchases shall be in accordance with Placer County Water Agency's Purchasing Policy and Procedures.

RESOLUTION NO. 13- 04
OF THE BOARD OF DIRECTORS OF THE
MIDDLE FORK PROJECT FINANCE AUTHORITY APPROVING
GENERAL FINANCIAL POLICIES

WHEREAS, Placer County Water Agency ("Agency") is the owner of the Middle Fork American River Project ("Project") which produces hydroelectric power; and

WHEREAS, the County of Placer ("County") is a financial partner in the energy sale output of the Project; and

WHEREAS, the County and the Agency have formed the Middle Fork Project Authority ("Finance Authority"), a joint powers authority, to manage the financial relationship between the two; and

WHEREAS, as a joint powers authority, the Finance Authority is accountable to both the County and the Agency, as the parties to the Joint Exercise of Powers Agreement, the County Treasurer, and to the public for the use of public funds; and

WHEREAS, The Finance Authority has requested that staff prepare a General Financial Policies to provide a framework to guide the Finance Authority's decision-making with respect to financial activities and planning.

NOW THEREFORE, BE IT RESOLVED, by the Board of Directors of the Middle Fork Project Finance Authority that:

1. The Middle Fork Project Finance Authority General Financial Policies are approved; and,
2. The Secretary and Executive Director of the Authority, or their designated staff, are directed to implement the policies as written.

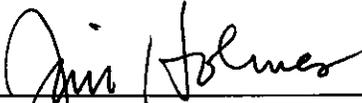
The foregoing Resolution was duly passed at an adjourned meeting of the Board of Directors of the Middle Fork Project Finance Authority held on the 25th day of April, 2013, by the following vote on roll call:

AYES DIRECTORS: Holmes/Lee/Allen/Weygandt

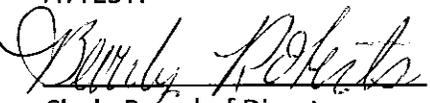
NOES DIRECTORS: None.

ABSENT DIRECTORS: Ferreira

Signed and approved by me after its passage this 25th day of April, 2013



Chair, Board of Directors
Middle Fork Project Finance Authority

ATTEST:


Clerk, Board of Directors
Middle Fork Project Finance Authority