

Borrego Water District Board of Directors
Special Meeting
June 18, 2026 @ 1:00 P.M.
806 Palm Canyon Drive
Borrego Springs, CA 92004

The Borrego Water District Board of Directors meeting as scheduled will be conducted in person and in an electronic format. Please note BWD is providing remote attendance options solely as a matter of convenience to the public. BWD will not stop or suspend its in-person public meeting should a technological interruption occur with respect to the GoTo meeting or call-in line listed on the agenda. We encourage members of the public to attend BWD meetings in-person at the address printed above. Anyone who wants to listen to or participate in the meeting remotely is encouraged to observe the GO TO MEETING at:

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I. OPENING PROCEDURES -

- A. Call to Order
- B. Pledge of Allegiance
- C. Directors' Roll Call: President Dice, Vice President Baker, Directors Duncan, Johnson & Moran

******* Teleconference Available: 2022 Quintain Drive, Borrego Springs CA 92004 *******

- D. Approval of Agenda
- E. Comments from the Public & Requests for Future Agenda Items (may be limited to 3 min)
- F. Comments from Directors
- G. Correspondence Received from the Public - None

II. ITEMS FOR BOARD CONSIDERATION AND POSSIBLE ACTION -

- A. Borrego Springs Subbasin Watermaster
 - 1. Update on Board Activities – G Moran/T Baker, VERBAL
 - 2. Discuss Agenda Items from Upcoming Meeting – G Moran/T Baker, VERBAL
 - 3. Update on Technical Advisory Committee Activities – T Driscoll, Intera - VERBAL
 - i. Water Transfer Policy Comments - T Driscoll & Y Pasner - VERBAL
- B. BWD BPA Calculations, J Clabaugh - VERBAL
- C. Draft Administrative Code, Finance Section, J Clabaugh

III. CLOSED SESSION:

- A. CONFERENCE WITH LEGAL COUNSEL - Paragraph (1) of Government Code, section 54956.9 – Existing Litigation (Borrego Water District v. All Persons (Groundwater), Orange County Superior Court Case No. 37-2020-0000577)

IV. CLOSING PROCEDURE:

- A. The next Board Meeting is scheduled for 9:00 AM on June 23, 2026, to be available online and in person at 806 Palm Canyon Drive. See Board Agenda at BorregoWD.org for details, Agenda information available at least 24 hours before the meeting.

AGENDA: June18, 2026: The Borrego Springs Water District complies with the Americans with Disabilities Act. Persons with special needs should call Geoff Poole, General Manager – at (760) 767 – 5806 at least 48 hours in advance of the start of this meeting, in order to enable the District to make reasonable arrangements to ensure accessibility. If you challenge any action of the Board of Directors in court, you may be limited to raising only those issues you or someone else raised at the public hearing, or in written correspondence delivered to the Board of Directors (c/o the Board Secretary) at, or prior to, the public hearing.

All Documents for public review on file with the District's secretary located at 806 Palm Canyon Drive, Borrego Springs CA 92004. Any public record provided to a majority of the Board of Directors less than 72 hours prior to the meeting, regarding any item on the open session portion of this agenda, is available for public inspection during normal business hours at the Office of the Board Secretary, located at 806 Palm Canyon Drive, Borrego Springs CA 92004.

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JUNE 18, 2026
AGENDA ITEM II.A

June 16, 2026

TO: Board of Directors

FROM: Geoffrey Poole, General Manager

SUBJECT: Borrego Springs Subbasin Watermaster

1. Update on Board Activities – G Moran/T Baker, VERBAL
2. Discuss Agenda Items from Upcoming Meeting – G Moran/T Baker, VERBAL
3. Update on Technical Advisory Committee Activities – T Driscoll, Intera - VERBAL
 - i. Water Transfer Policy Comments - T Driscoll & Y Pasner - VERBAL

RECOMMENDED ACTION:

Receive reports from WM Representatives and BWD Consultants

ITEM EXPLANATION:

The WM is requesting comments from TAC members by June 19th. Intera will be making a report to the BWD Board on its suggested comments at the Board Meeting.

NEXT STEPS

1. File Comments with WM

FISCAL IMPACT

1. TBD

ATTACHMENTS

1. None

BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JUNE 18, 2026
AGENDA ITEM II.B

June 16, 2026

TO: Board of Directors

FROM: Geoffrey Poole, General Manager

SUBJECT: BWD BPA Calculations, J Clabaugh - VERBAL

RECOMMENDED ACTION:

Review impact of revised Sustainable Yield

ITEM EXPLANATION:

Staff incorporated the revised Sustainable Yield into its planning process as soon as the 7,952 afy was set by the Watermaster last year. Staff also realized it has yet to share with the Board the mathematical impacts. Jessica will be presenting the information to the Board at the meeting.

NEXT STEPS

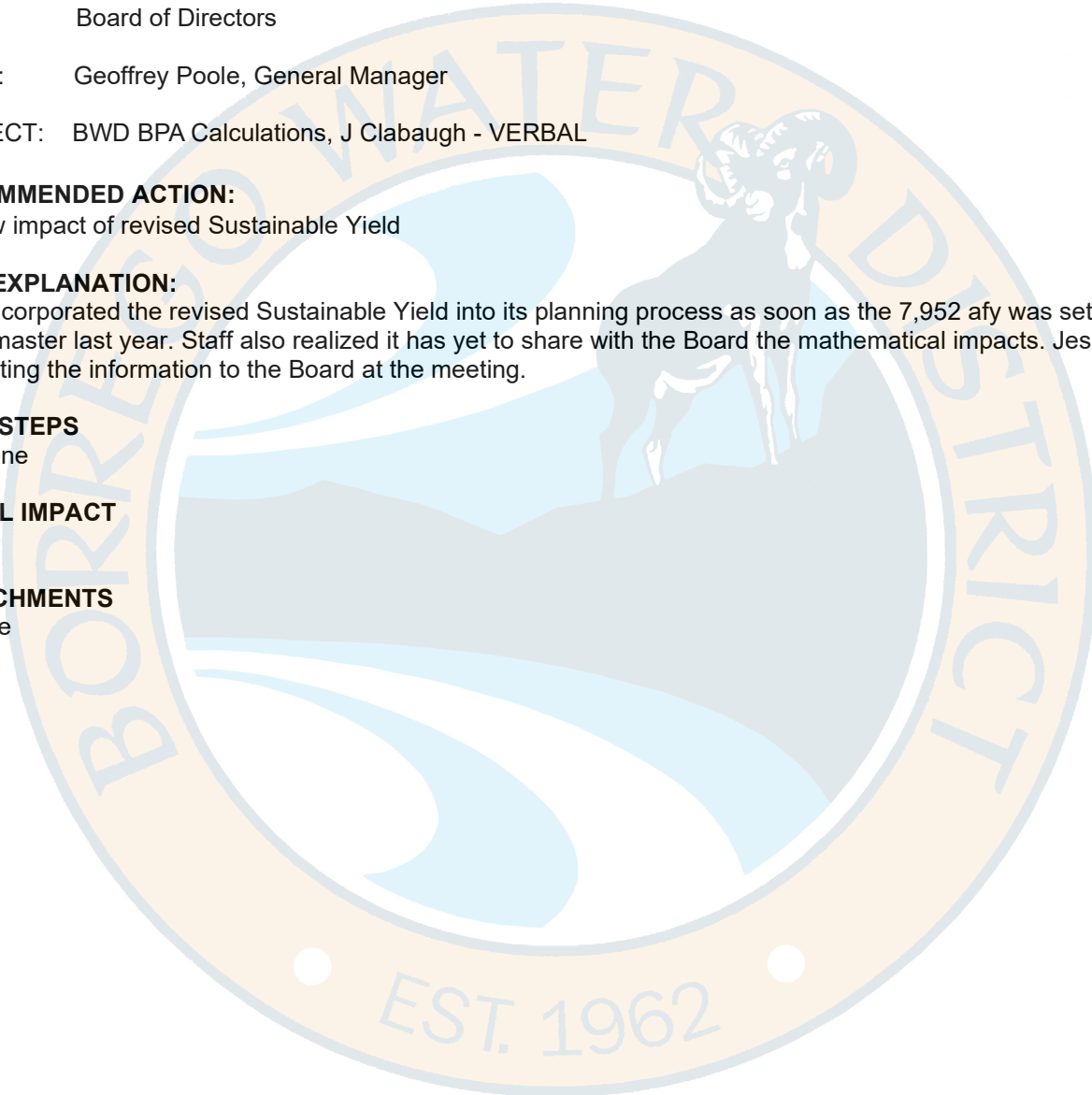
2. None

FISCAL IMPACT

1. TBD

ATTACHMENTS

1. None



BORREGO WATER DISTRICT
BOARD OF DIRECTORS MEETING
JUNE 18, 2026
AGENDA ITEM II.C

June 16, 2026

TO: Board of Directors

FROM: Geoffrey Poole, General Manager

SUBJECT: Review of New Draft BWD Admin Code: Finance Sections

RECOMMENDED ACTION:

Review Draft Admin Code and amend if needed

ITEM EXPLANATION:

Attached is the proposed Draft of the Admin Code Finance Section.

NEXT STEPS

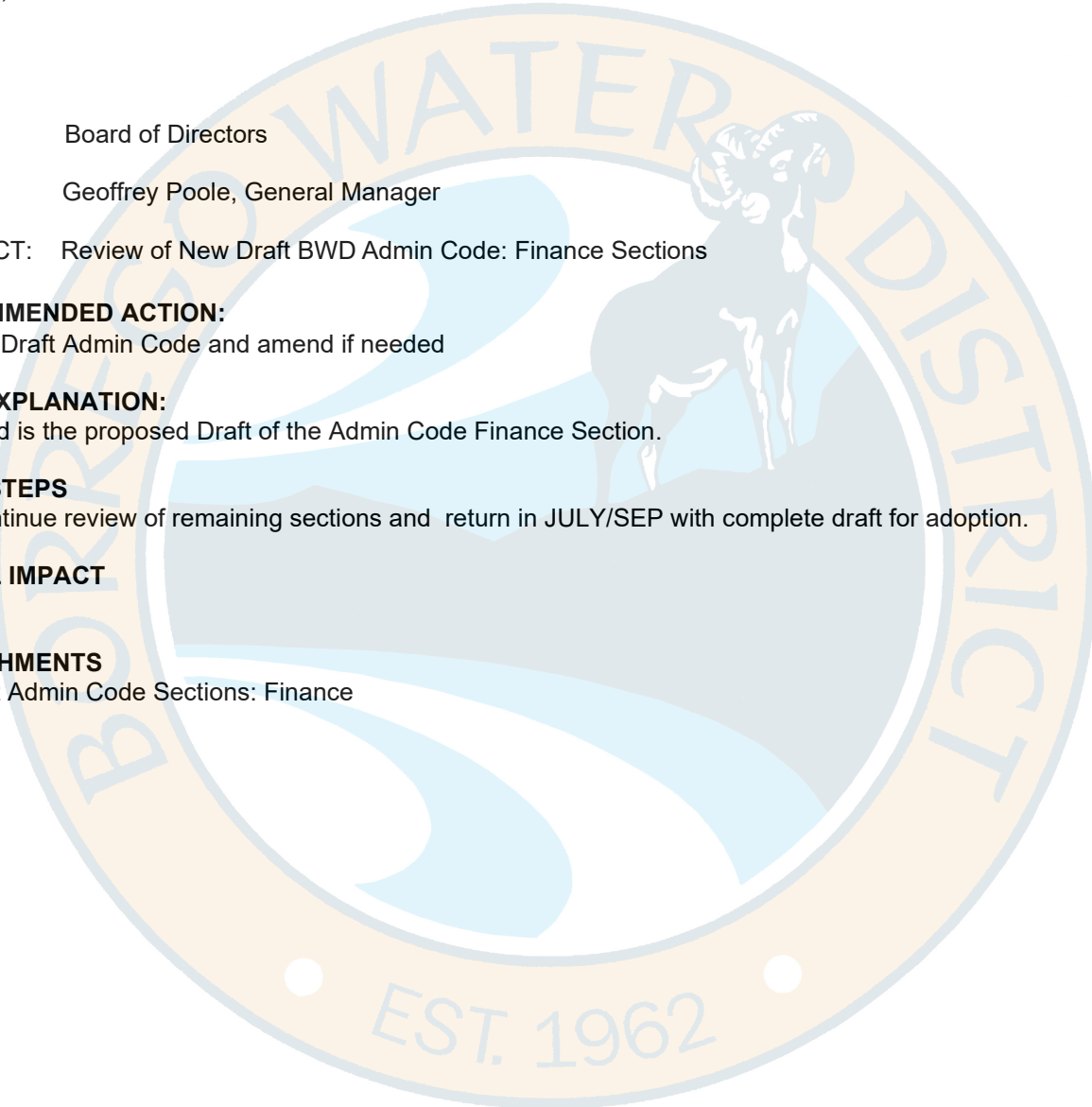
3. Continue review of remaining sections and return in JULY/SEP with complete draft for adoption.

FISCAL IMPACT

1. TBD

ATTACHMENTS

1. Draft Admin Code Sections: Finance



Contents

SECTION 6000. FINANCIAL MATTERS 2

§ 6001. Public Financing Policy. 2

§ 6002 Investment Policy Statement. 3

§ 6003 Debt Management Policy 4

§ 6004 Disclosure Policy..... 10

§ 6005 Reserve Policy..... 11

§ 6006 Miscellaneous Policies – Rates, Fees & Charges 13

§ 6007 Bank Accounts/Signatories..... 13

§ 6008 Capital Improvements Financing Plan 14

§ 6009 Capital Asset Policy..... 14

SECTION 6000. FINANCIAL MATTERS

§ 6001. Public Financing Policy.

As a general objective, the Borrego Water District (BWD) requires new development to pay its fair share for new connections to BWD's existing water, sewer, and wastewater infrastructure capacity. The developer would also be responsible to pay for the proportional use of any additional system capacity that would necessarily be added to the BWD system as the result of the new development

BWD encourages responsible development by requiring developers to install water and sewer infrastructure at the developer's expense. In addition, developers shall be charged for each new connection to pay for any required improvements to the existing BWD system and the new development's proposed use of existing system capacity. Participation in costs by BWD will occur only when such participation will add further benefit to BWD's capability to provide services to existing and future customers.

At its own expense and at no cost and expense to BWD, the Developer shall furnish, install, and construct all on-site and off-site water and sewer system improvements, including all labor and material, as required by BWD to be installed to serve the development, to not impede the current level of water and sewer service to existing customers and to meet BWD's objectives for the level of system service reliability that is currently available in the general area of the development. The construction and installation of the water and sewer system improvements shall be in strict accordance with the plans, specifications and requirements approved by BWD and performed by a Licensed Contractor. In addition, the developer shall indemnify BWD from any loss or damage that may directly or indirectly result from the installation of water and sewer system improvements by the developer. For most recent hourly labor rates, see BWD Rates, Fees and Other Charges at borregowd.org or call 760-767-5806

Upon completion of the construction of the water and sewer improvements, upon final approval by BWD, and upon the water and sewer system improvements being placed into service, the improvements shall immediately become the property of BWD regardless of whether or not a formal written conveyance has been made. The developer and any other persons paying the cost of constructing such improvements shall execute all written instruments requested by BWD necessary to provide evidence of BWD's title to such improvements, including obtaining any lien releases from the material suppliers and subcontractors of the developer and/or its contractor. The water and sewer system improvements shall become the property of BWD free and clear of the claims of any persons, firms, or corporations.

The Board of Directors will consider the use of community facilities districts (hereinafter "CFDs") or special benefit assessment districts (hereinafter "AD") as well as other financing

methods to assist residential, commercial or industrial development. Where, in the District's opinion, the public facilities of the development represent a significant public benefit, this type or other appropriate types of public financing will also be considered.

Public facilities proposed to be financed through a CFD or AD for which the District is the lead agency must meet a significant public need and have a regional benefit.

Projects will be reviewed on a case-by-case basis. Nothing herein shall be construed as requiring the District to utilize public financing. All requests for such financing shall be reviewed on a case-by-case basis, and the District reserves the right in its sole and absolute discretion, to approve or deny any and all such requests.

§ 6002 Investment Policy Statement.

In accordance with and under authority granted by the Board of Directors, the Finance Officer for the Borrego Water District is responsible for investing the unexpended cash in the District Treasury. The investment of the funds of the Borrego Water District is directed to the goals of safety, liquidity and yield. The authority governing investments for municipal governments is set forth in the California Government Code, Sections 53601 through 53659.

The primary objective of the investment policy of the Borrego Water District is SAFETY OF PRINCIPAL. The secondary objective shall be to meet the liquidity needs of the Borrego Water District. The third objective shall be to achieve an investment return on the funds under control within the parameters of prudent risk management, consistent with the constraints imposed by its safety objective and cash flow considerations.

Investments shall be placed in those securities as outlined by type and maturity sector as outlined in the District's Investment Policy (For most recent version see borregowd.org or call 760-767-5806).

Effective cash flow management and resulting cash investment practices are recognized as essential to good fiscal management and control. Borrego Water District's portfolio shall be designed and managed in a manner responsive to the PUBLIC TRUST and consistent with state and local law. Portfolio management requires continual analysis and as a result the balance between the various investments and maturities may change in order to give the Borrego Water District the optimum combination of necessary liquidity and optimal yield based on cash flow requirements.

Officers and employees involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program, or impairs their ability to make impartial investment decisions. Additionally, the District Finance Officer is required

to annually file financial disclosures as required by the Fair Political Practices Commission (FPPC). All officers and employees involved in the investment of public funds are required to comply with the District's Conflict of Interest Code.

The Borrego Water District investment policy shall be adopted by resolution of the District Board of Directors on an annual basis (California Government Code 53646(a)). This investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the Board of Directors for approval.

§ 6003 Debt Management Policy

A. Debt Management Summary

The District's overriding goal in issuing debt is to respond to and to provide for the infrastructure and capital project needs of its customers while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The District issues debt instruments, administers District-held debt proceeds and makes debt service payments, acting with prudence, diligence, and attention to prevailing economic conditions.

This policy documents the District's goals for the use of debt instruments and provides guidelines for the use of debt for financing the District infrastructure and project needs.

Debt will be used to finance projects (i) if it meets the District's goal of equitable treatment of all customers, both current and future, (ii) if it is cost-effective to the District, and (iii) if it is fiscally prudent, responsible, and diligent under the prevailing economic conditions. The District will endeavor to pay for all infrastructure and other projects from an appropriate combination of current revenues, available reserves, and prudently issued debt.

The District's debt management policy is designed to:

- Establish parameters for issuing debt;
- Provide guidance to decisions makers;
- Document the objectives to be achieved by staff both prior and subsequent to issuance;

- Promote objectivity in the decision-making process;
- and
- Facilitate the financing process by establishing important policy decisions in advance.

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

- State law authorizing debt issuance;
- Federal and state laws and regulations governing taxable and tax-exempt debt;
- Federal and state securities laws and regulations governing disclosure, sale and trading of debt instruments.

B. General Management Policies

In recognition of periodic changes in the cost of providing service to system users, service costs and fees will be reviewed annually and adjusted as necessary. Any proposed adjustments to existing rates, fees and charges will be presented at public meetings. All District debt proceeds will be invested according to the Annual Statement of Investment Policy of the District and according to the issuing debt documents.

Necessary funding requirements for annual debt service requirements will be included in the District's annual budget.

The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers, reporting agencies, and investors, to maximize future capital market access at the lowest possible rates.

C. Financial Management Policies

The District evaluates each capital project in relation to established levels of reserves, current rate structure, expected asset life/replacement timeline, available revenue sources, and other priorities. The District strives to ensure that adequate financial resources are available to support the District's financial obligations. The following policies outline the District's approach to debt management. The District will evaluate financing for each capital project on a case-by-case basis.

The District will seek to pay for all capital projects from current revenues and available reserves prior to or in combination with the use of debt.

The District will issue debt when there is an identified source of repayment. Debts will be issued to the extent that (i) projected future revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such fixed revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

User Fees and Water Rates will be set in compliance with State law at adequate fair and nondiscriminatory levels. Fees and rates must generate sufficient revenues to pay all Operating and Maintenance costs, to maintain sufficient operating and rate stabilization reserves, maintain balances in the rate stabilization fund and to pay any debt service costs.

To the extent permitted by law property taxes may be also utilized to finance a portion of annual debt service payments.

D. Debt and Capital Management Debt Policies

The following policies formally establish parameters for evaluating, issuing, and managing the District's debt. The policies outlined below are not intended to serve as a list of rules, but rather to serve as a set of guidelines to promote sound financial management.

1. Standards for Use of Debt Financing. When appropriate, the District will use long-term debt financing to: achieve an equitable allocation of capital costs/charges between current and future system users; to provide more manageable user rates in the near and medium term; and to minimize user rate volatility.

For growth-related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system and to better spread the costs more evenly between current and future users.

For betterment repair and replacement projects, debt financing may be used to better match the anticipated need and costs with available funds on hand. Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the facility permitted by the Internal Revenue Service. The debt repayment period, as well as the outstanding principle balance, should be less than or equal to the useful life and depreciated value of the related capital improvements.

Lease Agreements, Installment Sale Agreements and Certificates of Participation shall be considered as alternative forms of long-term debt. Although these forms of alternative

financing are subject to annual funding requirements, they shall be treated as long-term debt until maturity.

2. Financing Criteria. Each debt issuance should be evaluated on an individual basis within the framework of the District's long-term financial plan, as well as within the context of the District's overall financing objectives and current market conditions.

The District will evaluate alternative debt structures (and timing considerations), selecting the structure that best meets the District's needs based on prevailing market and infrastructure conditions.

Credit Enhancement. The District will consider the use of credit enhancement on a case-by-case basis, and use it only when clearly demonstrable savings can be realized.

Call Provisions. The District securities should evaluate the cost in relation to the benefits associated with issuing debt with optional call provisions. In many cases the District should avoid the sale of non-callable, long-term fixed rate debt, but each new issue should be evaluated based on all market factors.

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

Short-Term Debt. The District may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future debt capacity.

Use of Variable Rate Debt. The District should evaluate market factors before using variable rate debt. Variable rate debt should only be issued if it can be converted to a fixed rate. If it is not convertible the District should consider hedging its variable rate position, establishing an interest rate cap, or other appropriate means to limit the maximum interest amount owed by the District.

3. Refinancing and Outstanding Debt. The District shall have the responsibility to evaluate potential refunding opportunities presented by its financial advisor. The District should consider the following when analyzing potential refinancing opportunities:

Debt Service Savings. The District's minimum target savings level is 3% of the par amount refunded on a net present value (NPV) basis. NPV savings should be evaluated on a case-by-case basis, and should take into consideration:

- the value of the call option,

- the time to maturity,
- size of the issue,
- current interest rate environment,
- annual cash flow savings.

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

Restructuring. The District may seek to refinance a debt issue on a non-economic basis, in order to restructure debt, to mitigate irregular debt service payments, accommodate revenue shortfalls, release reserve funds, comply with and/or eliminate rate/debt covenants, terminate a swap, or for other reasons as approved by the Board.

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

Escrow Structuring. The District shall utilize the most cost effective securities available in structuring each escrow. If purchased from a third party agent who is not acting as a broker-dealer, a certificate is required stating that the securities were purchased through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Series Securities (SLGS), and that the price paid was reasonable and within Federal rules and regulations.

When evaluating the economic viability of an economic versus legal defeasance, the District shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The District shall take all necessary steps to optimize the yield on its refunding escrow investments, while attempting to avoid negative arbitrage to the extent permitted by Federal rules and regulations.

4. **Method of Issuance.** The District will determine, on a case-by-case basis, whether to sell its debt competitively or through negotiation.

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

Negotiated Sale. The District recognizes that some securities are best sold through negotiation. In consideration of a negotiated sale, the District shall assess the following alternatives:

- Issuance of variable rate or taxable debt;
- Complex structures or credit considerations (such as non-rated debt), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders. Unique/ proprietary financing mechanisms (such as a financing pool), or specialized knowledge of a financing mechanism or process;
- Market volatility, such that the District would be better served by flexibility in the timing of its sale in a changing interest rate environment;
- When the financial advisor has identified new financing opportunities or presented alternative structures that may financially benefit the District;
 - As a result of an underwriter's familiarity with the project/financing, that enables the District to take advantage of efficiency and timing considerations.

Private Placement. From time to time the District may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

5. Market Communication, Debt Administration and Reporting Requirements.

The G.M. or his/her designee shall be responsible for the following:

Continuing Disclosure. Ensuring the District's timely filing with each Nationally Recognized Municipal Securities Information Repository. The District shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its debtholders within 270 days of the close of the fiscal year as outlined in section 2870 of the District Administrative Code.

Record-Keeping. Retaining copies of all debt-related records at the District's offices. At a minimum, these records shall include all official statements, bid documents, debt documents / transcripts, resolutions, trustee statements, leases, and title reports for each District financing

(to the extent available). To the extent possible, the District shall retain an electronic copy of each document for the life of the debt issue.

Arbitrage Rebate. Ensuring that all debt proceeds and investments are tracked in a manner which facilitates accurate calculation. If a rebate payment is due, make payments in a timely manner. The use of debt proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements.

Tax Certificates. The District shall incorporate the provisions of each tax certificate for each debt issue into its debt management procedures. The District will comply with applicable Federal tax rules and regulations. The District will comply with any arbitrage rebate requirements required by tax certificates as they relate to each tax exempt debt issue.

Internal Controls Related to Bond Proceeds. The District shall invest the proceeds of bond sales, until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of 1) safety, 2) liquidity, and 3) yield, and may be held as cash. The District's investment guidelines and bond indentures will govern objectives and criteria for investment of bond proceeds. The F.O. will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions. Bond proceeds will be deposited and recorded in separate accounts/programs to ensure funds are not comingled with other forms of District funds. The District's Trustee or F.O. will administer the disbursement of bond proceeds pursuant to each certain Indenture of Trust or Fiscal Agent Agreement, respectively. To ensure proceeds from bond sales are used in accordance with legal requirements, invoices should be approved by the Finance & Accounting Department and/or General Manager for payment. Requisition for the disbursement of bonds funds will be approved by the General Manager or designated alternate. Responsibility for general ledger reconciliations and records is segregated from the invoice processing, cash receipting, and cash disbursement functions. The Accounting Department will be tasked with monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the District will meet one of the spend-down exemptions from arbitrage rebate.

§ 6004 Disclosure Policy

Initial Disclosure Requirements.

The G.M., in consultation with financial advisor(s) will determine appropriate disclosure methods for initiating debt based on the method selected.

§ 6005 Reserve Policy

The purpose of the Borrego Water District's Reserve Policy is to ensure that the District will at all times have sufficient funding available to meet the operating, capital, and debt service cost obligations, as well as to provide for stable water and wastewater rates to minimize rate shock on customers.

Adequate reserves and sound financial policies promote BWD's bond ratings in the capital markets and lower the cost of capital, provide financing flexibility, as well as help avoid potentially restrictive debt covenants. This Reserve Policy shall cover all reserve funds of the District.

The Borrego Water District reserve policy shall be adopted by resolution of the District Board of Directors. This Reserve policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and yield, and its relevance to current law and financial and economic trends. Any amendments to the policy shall be forwarded to the Board of Directors for approval. (For most recent version see borregowd.org or call 760-767-5806).

The District's Financial Officer and/or the General Manager will present the status of the cash reserves and a plan to reach reserve targets within Funding Timeframe Goals at least annually to the Budget and Finance Committee and the Board of Directors. Available cash reserves for the sake of this policy shall constitute total cash and investments not externally restricted for other purposes. Each reserve target listed in this Policy is calculated and applicable for both Water and Wastewater Funds.

Reserve categories include the following, plus any other reserves as assigned by the Board of Directors;

Debt Reserves. Reserves equal to the annual principal and interest (P&I) for the respective debt obligations of the District shall be formally transferred and restricted in accordance with all legal requirements.

System Growth Reserves. These reserves generated from development charges for new water and sewer service as specified by the District's Policy for Water and Sewer Service to New Developments in effect, as amended from time to time, are used to offset capital projects or debt service related to new development in the District so that new development pays for itself rather than requiring a subsidy from existing ratepayers.

Operating or Working Capital Reserves. The purpose of an operating reserve is to have cash on hand for the continued day-to-day operations of the utility. The Operating Reserve may be used for cash flow purposes to fund necessary expenses without the need to wait for billed revenue to come in as well as any unexpected increases in operating expenses. The amount of the Operating Reserve is commonly pegged to a certain percentage of the utility's total operating expenses. The set percentage is usually dictated by the utility's bill frequency; if customers are billed on a monthly basis, then revenue continuously comes in and the need to have a significant amount of funds within the Operating Reserve may not be necessary. Based on industry standards, the Operating Reserve, in the case of monthly billing, should equal around 90 days of expenses (3 months). If the billing frequency is less frequent or there are revenue receipt delays due to other contingencies, the Operating Reserve may be increased to account for the time delay of receiving cash on hand. The Operating or Working Capital Reserve shall be a minimum reserve of no less than 90 days of Operating and Maintenance (O&M) annual expenses, with an ideal Operating Reserve target of 120-days of annual O&M expenses.

Rate Covenant Stabilization Funds. These reserves include the Sewer Enterprise Rate Covenant Stabilization Fund and the Water Enterprise Rate Covenant Stabilization Fund. The purpose of these reserves are used to stabilize water and sewer revenues in order to maintain adequate debt coverage ratios required by the District's lenders. These reserve funds shall be maintained at level of twenty-five (25%) of the current years' debt service payments.

Contingency Reserves. The purpose of this reserve is to accommodate unexpected operational changes, legislative impacts or other economic events that may affect the District's enterprise operations, which could not have been reasonably anticipated at the time the budget was prepared. The target level for this reserve is a minimum of five percent (5%) and a maximum of ten percent (10%) of the District's total enterprise-wide operating expenses. Generally, the level will be increased as the level of economic uncertainty increases.

Capital Repair and Replacement Reserve (Capital Reserve). A Capital Repair and Replacement Reserve is used primarily to meet and ensure the timely construction of necessary capital improvements without any delays due to cash flow concerns. Capital expenses can fluctuate quite a bit from year-to-year and the Capital Reserve may be leveraged to smooth out significant changes in expenses and; thereby, avoiding any unduly rate shocks to District customers. It may also serve as collateral and reassurance when awarding a construction contract. The Capital Reserve shall have a target equal to the greater of (i) \$1,000,000 and (ii) the budgeted pay-go needs in the following fiscal year for the water infrastructure repair and replacement (R&R) and sewer and wastewater infrastructure repair and replacement (R&R).

Water Supply Purchase Reserve (Supply Reserve). The District will need to purchase Baseline Pumping Allocation (BPA) from Subbasin pumpers to meet its supply requirements

established under SGMA and the Borrego Springs Subbasin California Superior Court Adjudicated Judgment. The District hopes to use grants and/or bank debt to accomplish these purchases. However, BPA may become available in the market on the sellers' timeframe, not necessarily the District's. It would also potentially be financially imprudent for the District to wait until the last moment to purchase BPA before penalties are assessed by the Watermaster for exceeding the District's annual pumping allocation limit. For these reasons, the Board shall dictate the requirements of any Water Supply Purchase Reserve as it sees fit.

Emergency Reserve. Catastrophic events may occur that require substantial investments to replace damaged assets. Some examples of catastrophic events include earthquakes, wind storms, floods, ransomware exploits or hacking that impacts the District's digital networks, health emergencies, etc. Some of these catastrophic events may allow the utility to recover the cost of damages from FEMA or existing insurance policies. However, FEMA or insurance policy coverage reimbursements may take between 6 months to 2 or more years to recover. The utility should ensure adequate cash reserves exist to replace the assets in a timely fashion and to arrange short term financing options. The minimum reserve levels are sometimes combined with emergency funding from banks or bonding agencies. The percent of the minimum cash reserves are dependent on the replacement cost of capital assets in service and the level of risk of catastrophic type events. The Emergency Reserve policy target level will equal 2% of the replacement cost of the District's capital assets.

§ 6006 Miscellaneous Policies – Rates, Fees & Charges

The District maintains the BWD Rates, Fees & Other Charges document listing all current rates, fees and other charges. For most recent version see borregowd.org or call 760-767-5806.

§ 6007 Bank Accounts/Signatories

The District will designate check signing authority for all bank accounts and so inform the bank used by the District on forms approved by the bank. All checks shall require two signatures. Checks are generally signed by the General Manager and the Board Treasurer, however, the Executive Administrative Assistant, Finance Officer and/or any member of the Board may sign in the event the General Manager and/or Board Treasurer are unavailable. The General Manager or Finance Officer may authorize electronic payments if expenditures were previously approved according to the appropriate staff or Board level per the Purchase Policy.

§ 6008 Capital Improvements Financing Plan

The District has prepared and adopted a Capital Improvements Financing Plan that will enable the District to adequately meet the rapidly increasing demands for water, sewer, and wastewater treatment services. The document is a plan for raising the funds to meet these demands in a manner that is fair and equitable to new and existing customers.

The District's Capital Improvements Financing Plan, by this reference, is incorporated herein (For most recent version see borregowd.org or call 760-767-5806).

§ 6009 Capital Asset Policy

Purpose.

The purpose of this policy is to establish control and accountability measures to ensure careful and responsible management of District capital assets. In addition, to collect and maintain complete and accurate capital asset information required for preparation of financial statements in accordance with GAAP (generally accepted accounting principles).

Definitions.

Fixed Assets: non-consumable items including but not limited to: land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure and all other tangible and intangible assets that are used in operations and that have initial useful lives extending beyond five years.

Capital Outlay Expenditure: an individually significant acquisition of capital assets (not involving construction) that is expected to last more than five years and have an individual cost of \$25,000 or more. This threshold should be applied at the individual asset level. Group purchases of individual assets under \$25,000 should not be capitalized, even if the group purchase totals to more than \$25,000. Approval of Capital Outlay expenditures will follow the purchasing policy as outlined in the Districts Purchasing Policy.

Any improvements to an existing capital asset that do no more than return a capital asset to its original condition, regardless of the purchase amount, should be classified as maintenance and repairs expense in the period incurred.

Capital Improvement Project Expenditure: an individually significant construction project with a cost of \$100,000 or more that creates a new capital asset, improves an existing asset (Example: increases its service capacity) or significantly extends an asset's operating life. Approval of Capital Improvement Project expenditures will follow the purchasing policy.

Asset Classes

- Land
- Construction in Progress
- Water Rights
- Infrastructure – Water
- Infrastructure – Wastewater
- Buildings and Structures
- Vehicles and Equipment
- Miscellaneous

Capitalization Threshold

The District maintains a capitalization threshold as follows:

- Land is not subject to capitalization thresholds (All Land Purchases, regardless of cost, are capitalized and are nondepreciable)
- Water Rights are not subject to capitalization thresholds (All Water Right Purchases, regardless of cost, are capitalized and are non-depreciable)
- Infrastructure, Buildings and Structures \$100,000
- Vehicles, Machinery, Equipment and Other \$25,000

Depreciation Method and Useful Life

All assets are depreciated using the straight line method over the following estimated useful lives:

- Reservoirs – storage 50-100Years
- Source of supply 5-30 Years
- Pumping & water treatment facilities 30-40 Years
- Transmission and distribution 50-100 Years
- Meters 10-20 Years
- Wastewater treatment 30-40 Years
- Wastewater collections 50-100 Years

- Wastewater pumping 20-40 Years
- Transportation equipment and vehicles 10-15 Years
- Studies, tools, equipment 5-10 Years

Disposal of Surplus Items

Surplus property is defined as any unnecessary, obsolete or excess supplies, materials, tools, vehicles, equipment or furniture that has been replaced or retired due to damage, age or change in District's standards and/or specifications. Please refer to Section Surplus Materials Property.

Physical Inventory of Fixed Assets

The District should account for and inventory all assets at least once every three years.

Leased Assets

The Governmental Accounting Standards Board (GASB) issued a standard that was implemented July 1, 2021 (GASB 87). The objective of this new standard was to better meet the information needs of financial statement users by improving accounting and financial reporting for lease purchases by governments. GASB 87 defines the scope of leased assets as non-financial assets, such as land, buildings, equipment, and vehicles. Certain non-financial asset-based lease agreements are out of scope, such as leases of intangible assets, biological assets, and inventory. All capital lease purchases are to be evaluated to determine if they meet the GASB 87 definition of a lease in order to comply with reporting requirements
comply with reporting requirements.

Policy Review

This policy must be reviewed periodically to ensure careful and responsible management over District resources.