

Session Five

ISSUER PERSPECTIVE: HOW ARE THEY DOING IN THE WAKE OF ALL THIS CHANGE?

Moderator: Jay M. Goldstone, Managing Director, MUFG and GFOA Debt
Management Committee Technical Advisor

Deborah Cherney, Deputy General Manager, Eastern Municipal Water District
Scott P. Johnson, Partner, State and Local Government Advisory Services,
Macias Gini & O'Connell LLP



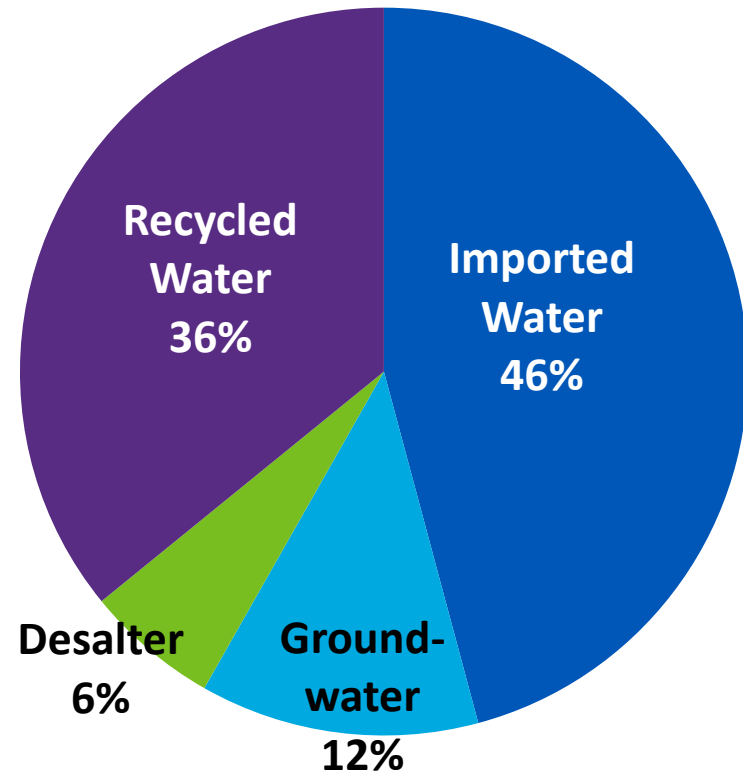
2016 CDIAC Pre-Conference Issuer Perspective: How Are They Doing in the Wake of All This Change?

Debby Cherney
September 20, 2016

Overview

- Established in 1950
- Riverside County, California
 - High-growth area
 - Arid climate
- 555 square-mile service area
- Service area population of 795,000
- Full service agency providing **water, wastewater and recycled water service**:
 - 145,000 water connections
 - 237,000 sewer connections
- Serving seven cities and unincorporated areas

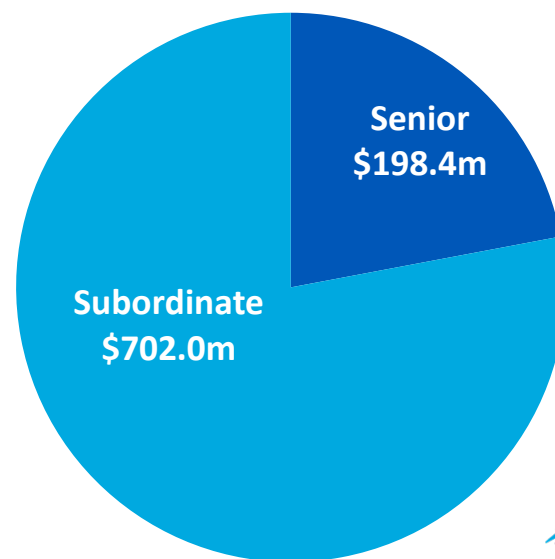
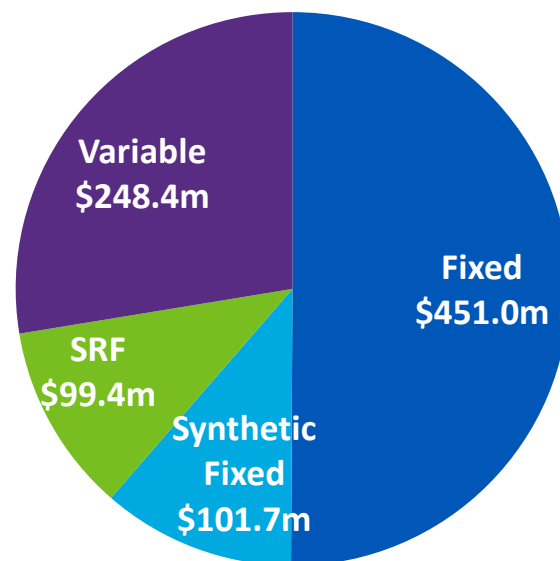
Calendar Year 2015
123,087 AF



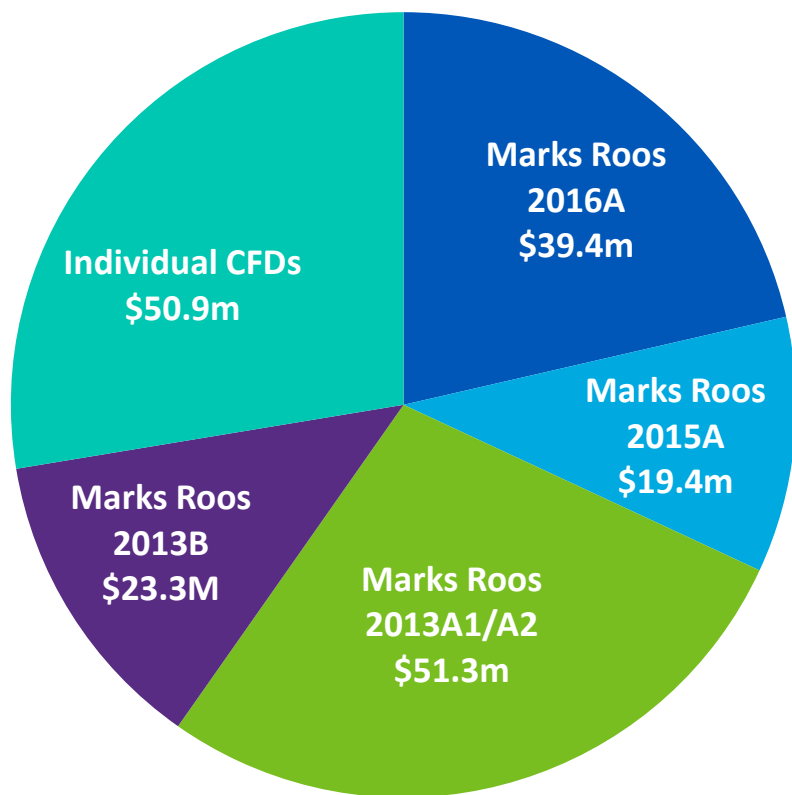
Source: EMWD 2015 Urban Water Management Plan

Utility Debt

- \$900.4 million outstanding as of 9/15/2016
- Senior Debt Ratings: AA+/Aa2/AAA★
- Subordinate Debt Ratings: AA/Aa3/AA+
- Fixed/Variable/SRF/Synthetically Fixed
- Significant efforts in last three years to optimize portfolio -- refundings & new money



Land Secured Debt – Community Facilities Districts



- 75 Community Facilities Districts formed since 2001
- \$184.3 million in debt outstanding
 - 60 CFD Improvement Areas
- 14,987 existing developed parcels
- Average par of outstanding individual CFDs: \$3.9 million
- Average par of outstanding Marks Roos pools: \$33.4 million
- Refunding savings totaled \$15.6 million since 2013
 - Highest average parcel savings \$663 per year
- Expected market activity: approximately 5 new transactions per year

During the Deals

- Engagement of Financing Team
 - Financial Advisors
 - Underwriters
 - Bond & Disclosure Counsel
 - Special Tax Consultants (land secured financings)
- G-17 Letters / Acknowledgments
- Disclosure
- Due Diligence
- Market Communications

Disclosure Practices & Due Diligence

- Entire Financing Team is involved
- Broad-based Review of OS/Appendix A
 - Fresh review every time
 - Virtually all departments are involved in our utility financing disclosures
 - Ongoing training and awareness
 - For land secured transactions, incorporating developers into the conversation
 - Developers increasingly hiring their own disclosure experts
- Due diligence calls are broader, take longer and have more participants

Communications

- Consistency across channels:
 - Investor Relations website
 - Board/Committee agenda packages (publicly available)
 - Rating Agency presentations
 - Investor roadshows
 - POS/OS
- Analyst/Investor inquiries
- Property owners



Contact Information

Debby Cherney
Deputy General Manager
Phone Number (951) 928-6154

Email: cherneyd@emwd.org

2016 CDIAC Pre- Conference

Issuer Perspective: How Are They Doing in the Wake of All This Change?

Presented by:
Scott P Johnson, CPA, Partner



September 20, 2016

Issuer Perspective

- **Board and Management Involvement with Internal Controls and Risk Management**
- **The Finance Officer's Responsibilities**
- **GASB Reporting Requirements**
- **GFOA Best Practices – Continuing Disclosures**
- **Audit Procedures for Financial Audit Assertions**
- **Best Practices Example - San Jose Procedures**

Board and Management Involvement with Internal Controls and Risk Management

- **Renewed focus of Board and Senior Management on Risk Management/Oversight**
- **Risk Management Philosophy and Risk Appetite**
- **Understanding the Organization's Risk Management Practices**
- **Performing a Risk Assessment and Identify Key Risk Factors**
- **Developing a Risk Mitigation Plan**

The Finance Officer's Responsibilities

- Proper use of bond funds for capital purposes
- Projects listed, or “Like” projects allowed
- Account for proceeds and project expenditures
- Make debt service and related payments
- Establish controls to ensure proper use of proceeds
- Coordinating of project payments or bond draws with the Trustee
- Financial Statements and Continuing Disclosures

An Overview of Recent GASB Statements

No.	Title	Issued	Effective for Periods Beginning After
72	Fair Value Measurement and Application	Feb 2015	June 15, 2015
73	Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68	June 2015	June 15, 2015 *
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	June 2015	June 15, 2016
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	June 2015	June 15, 2017
76	Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	June 2015	June 15, 2015
77	Tax Abatement Disclosures	Aug 2015	December 15, 2015
78	Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans	Dec 2015	December 15, 2015
79	Certain External Investment Pools and Pool Participants	Dec 2015	June 15, 2015 *
80	Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14	Jan 2016	June 15, 2016
81	Irrevocable Split-Interest Agreements	Mar 2016	December 15, 2016
82	Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73	Mar 2016	June 15, 2016 *

* Statement has multiple effective dates; earliest required date is presented above.

Specific GASB Reporting Requirements

- Pension Disclosures – GASB 68
- Financial Reporting for other Post-Employment Benefits – GASB 74 & 75
- Fair Value Measurement – GASB 72

GFOA BEST PRACTICES: **Continuing Disclosure**

- Principal and interest payment delinquencies
- Non-payment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflect financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to rights of security holders

GFOA BEST PRACTICES: Continuing Disclosure

- Bond calls and tender offers
- Defeasances or the termination of the rights and interests of bondholders under terms of the bond documents
- Release, substitution or sale of property securing repayment of the securities
- Rating changes
- Bankruptcy, insolvency or receivership
- Merger, acquisition or sale of all issuer assets
- Appointment of successor trustee

Existing Audit Procedures Considered for Financial Audit Assertions

Review of Controls:

- Inquire with management regarding the monitoring process for bond covenants.
- Process to ensure punctual payments set forth in the bond payments schedule.
- Tracking system to ensure sufficient reserves set forth in the bond agreement.
- Proper books of record and accounts.

Best Practices Example-SanJose Procedures

- Annual Debt Report Publicly Issued and Posted on-line
- Continued disclosure and on-going monitoring to determine updates
- Bond Projects Reimbursement Procedures
 - Submittal by sponsoring department
 - Documentation reviewed by Treasury/Accounting
 - Finance Submits to Trustee for reimbursement
 - Funds received and posted to finance system in appropriate project/fund
 - Accounting reflected in financial statements and included in City's Comprehensive Annual Financial Report (CAFR)

Best Practices Example-San Jose Procedures (Continued)

- **GO Bond Program**
 - **Subject to Audit by External Auditors**
 - **Audit and Program Reports reviewed annually by Public Bond Oversight Committee at a public meeting**
 - **Oversight Committee report submitted to City Council**
- **SEC and IRS Audits**

Disclaimer

The views expressed in this presentation are those of the presenter and do not reflect the official policy or position of CDIAC, the Bond Buyer or Macias Gini & O'Connell LLP (MGO).

Questions?
Let's Talk.

CLOSE OF PROGRAM

Completion of Post Evaluations

General Conference Next Door at JW Marriott