



FINANCE COMMITTEE
MEETING MINUTES
November 10, 2022

Committee Chair Elofson called the meeting to order.

| Name | Title | Present for Item Nos. |
|------------------------|---|-----------------------|
| Elofson, Frederick N. | Commission Vice-Chair and Committee Chair | 1-3 |
| Levenston, Jr., Willie | Committee Member | 1-3 |
| Rodriguez, Stephen C. | Commission Chair | 1-3 |
| Glenn, Michael E. | Commissioner | Absent |
| Lakdawala, Vishnu K. | Commissioner | 1-3 |
| Stern, Nancy, | Commissioner | Absent |
| Taraski, Elizabeth | Commissioner | 1-2 (virtual) |
| Templeman, Ann | Commissioner | Absent |

1. **Annual Audit Report**

The Deputy General Manager/Director of Finance introduced representatives from Cherry Bekaert: Laura Hardin, CPA, Partner and Ray Millendez, CPA, Senior Manager. Ms. Hardin presented the [results](#) of the annual audit and explained the audit process. She said there are no reportable deficiencies, and an unmodified (clean) audit opinion is expected. Staff will notify the Commission of changes prior to the final report being published and distributed.

2. **Annual Comprehensive Financial Report (ACFR) Review**

Staff provided an [update](#) of HRSD's finances for the 2022 fiscal year. He reported that although the financial operations of HRSD for fiscal year 2022 were positive and the financial health of the organization remains sound, headwinds, such as inflationary pressures; water consumption trends; investment losses in pension and OPEB plans; and a large, regulatory driven, capital improvement program all create budgetary challenges in the coming fiscal years. The following items were reviewed in-depth:

- Overview and analysis of the basic financial statements
- Pension and Retiree Health Plan Trust Results
- Key Financial Policy Indicators



FINANCE COMMITTEE
MEETING MINUTES
November 10, 2022

3. **Financial Policy Review**

Mr. de Mik reviewed the following proposed changes to the Financial Policy:

1. Clarifying the definition of Arbitrage to include tax “advantaged” bonds not just tax-exempt bonds to encompass HRSD’s Series 2009 Build America Bonds outstanding;
2. Clarifying and simplifying the definition of Operating Expenses;
3. Incorporating the Secured Overnight Financing Rate (SOFR) as the default replacement of the discontinued London InterBank Offered Rate (LIBOR);
4. Incorporating the definition of the WIFA Master Agreement; and
5. Adding cryptocurrencies as a prohibited investment in the Retiree Health Plan Trust.

The final policy will be provided to the full Commission at their November 22, 2022 meeting for approval.

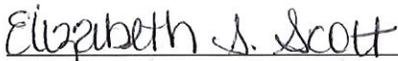
Attachments: [Presentations](#)

Public Comment: None

Next Commission Meeting Date: November 22, 2022

Meeting Adjourned: 11:45 am

SUBMITTED:



Elizabeth I. Scott
Assistant Commission Secretary

APPROVED:



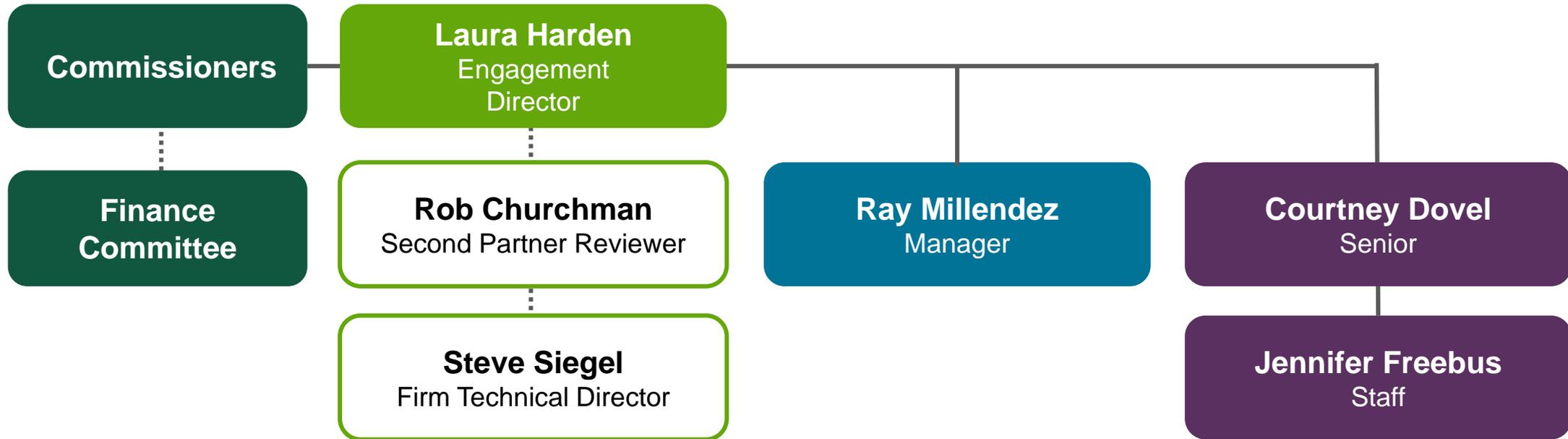
Frederick N. Elofson, CPA
Committee Chair



Hampton Roads Sanitation District
Audit Executive Summary

November 10, 2022

Client Service Team





Agenda

- ▶ Results of the Audit
- ▶ Significant Audit Matters
- ▶ Corrected and Uncorrected Misstatements
- ▶ Qualitative Aspects of Accounting Practices
- ▶ Independence Considerations
- ▶ Required Communications
- ▶ Other Matters

This information is intended solely for the use of the Commissioners and management of the Hampton Roads Sanitation District and is not intended to be, and should not be, used by anyone other than these specified parties.



Results of the Audit

Financial Statements:

- We have audited the financial statements of the Hampton Roads Sanitation District (“HRSD”) for the year ended June 30, 2022, and we expect to issue our report thereon dated approximately November 10, 2022
- We plan to issue an unmodified opinion on the financial statements.

Compliance:

- We identified no instances of noncompliance required to be reported under *Government Auditing Standards* or the *Specifications for Audits of Authorities, Boards, and Commissions*.
- We identified no material weaknesses in internal control over financial reporting



Significant Audit Matters

Customer Billings

- We performed a detailed test over a sample of monthly customer bills.
- We tested the billing rates based on customer type and jurisdiction.
- We conducted an analytic comparison over revenue variances compared to the prior year.
- We noted no unusual material variances based on the results of our testing.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

Corrected Misstatements

- ▶ None noted.

Uncorrected Misstatements

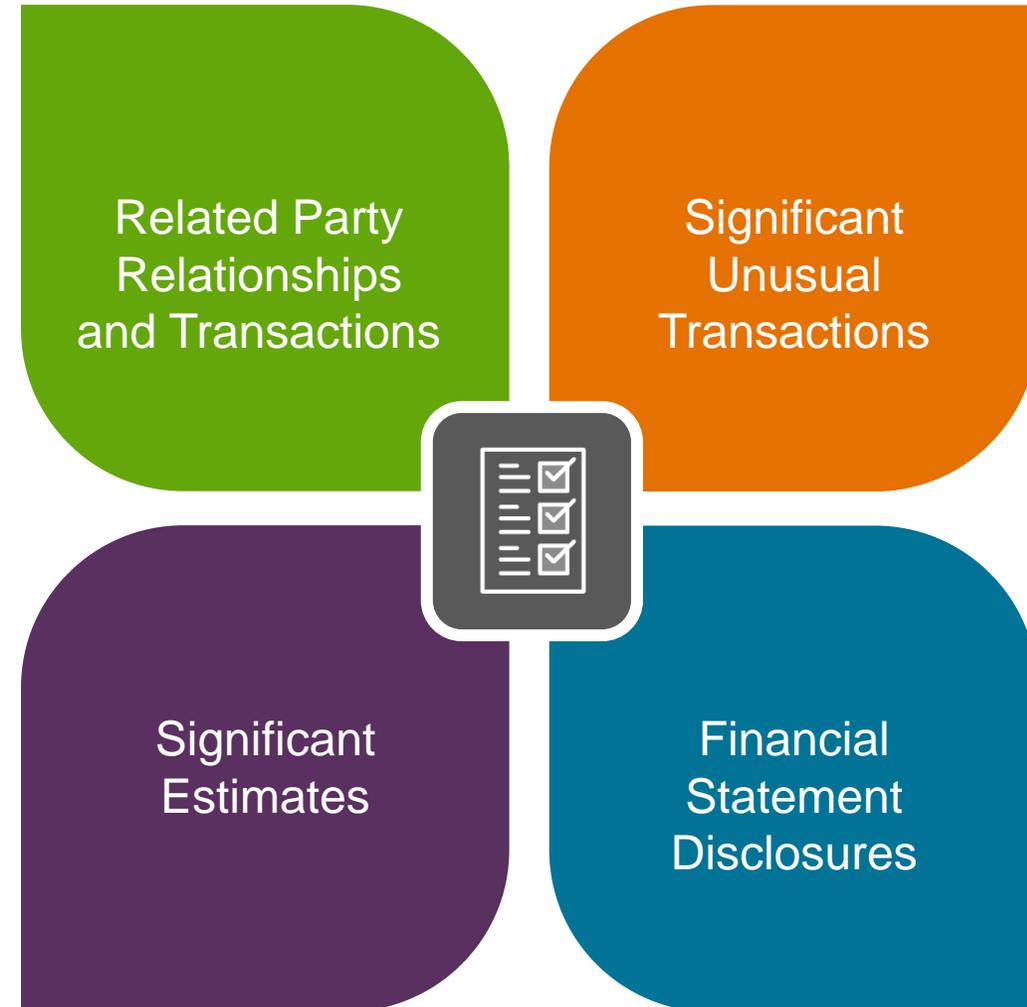
- ▶ Inventory price testing was performed on a sample of inventory items. The sample resulted in differences between HRSD's records and the audited amount. The difference in the sample is projected over the entire inventory population is approximately \$854k. We determine this to be an immaterial amount to the financial statements.



Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by HRSD are described in Note 2 to the financial statements.

As described in Note 2, HRSD determined GASB Statement No. 87, *Leases*, effective July 1, 2021, had an immaterial impact on the financial statements. In accordance with GASB, provisions of the Statement need not be applied to immaterial items, as a result HRSD has elected to not apply the provisions of this Statement. Management will evaluate annually to determine whether implementation is necessary.

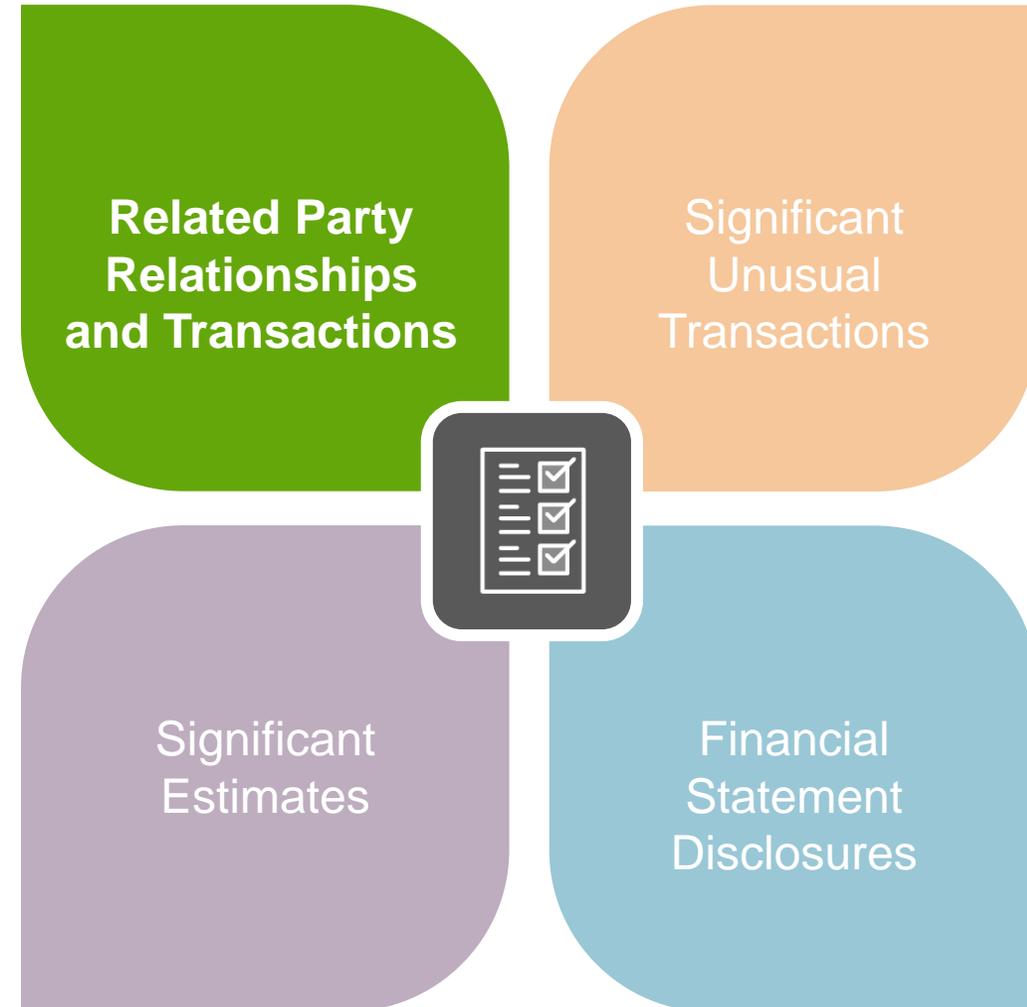


Qualitative Aspects of Accounting Practices

As part of our audit, we evaluated HRSD's identification of, accounting for, and disclosure of HRSD's relationships and transactions with related parties as required by professional standards.

We noted none of the following:

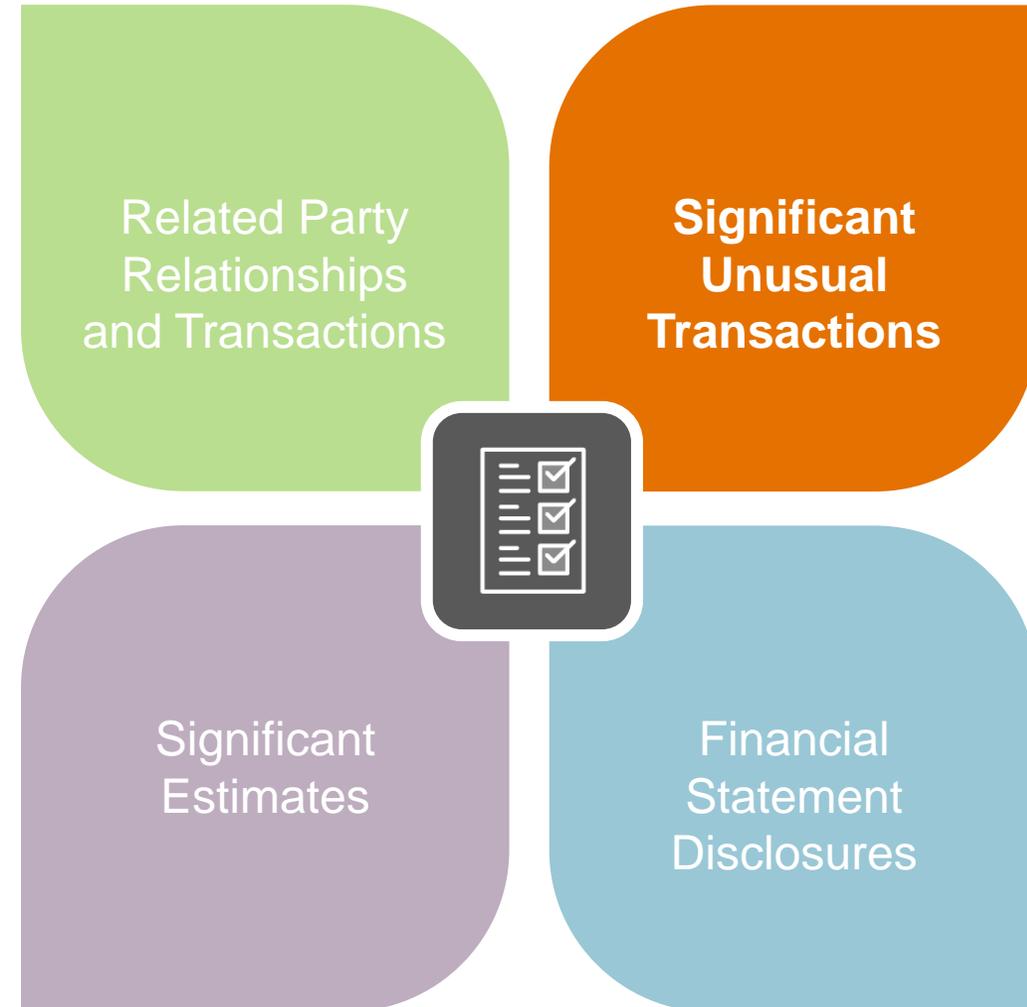
- Related parties or related party relationships or transactions that were previously undisclosed to us;
- Significant related party transactions that have not been approved in accordance with HRSD's policies or procedures or for which exceptions to HRSD's policies or procedures were granted;
- Significant related party transactions that appeared to lack a business purpose;
- Noncompliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions;
- Difficulties in identifying the party that ultimately controls HRSD.



Qualitative Aspects of Accounting Practices

We noted no transactions entered into by HRSD during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

For purposes of this letter, professional standards define significant unusual transactions as transactions that are outside the normal course of business for HRSD or that otherwise appear to be unusual due to their timing, size, or nature. We noted no significant unusual transaction during the year.

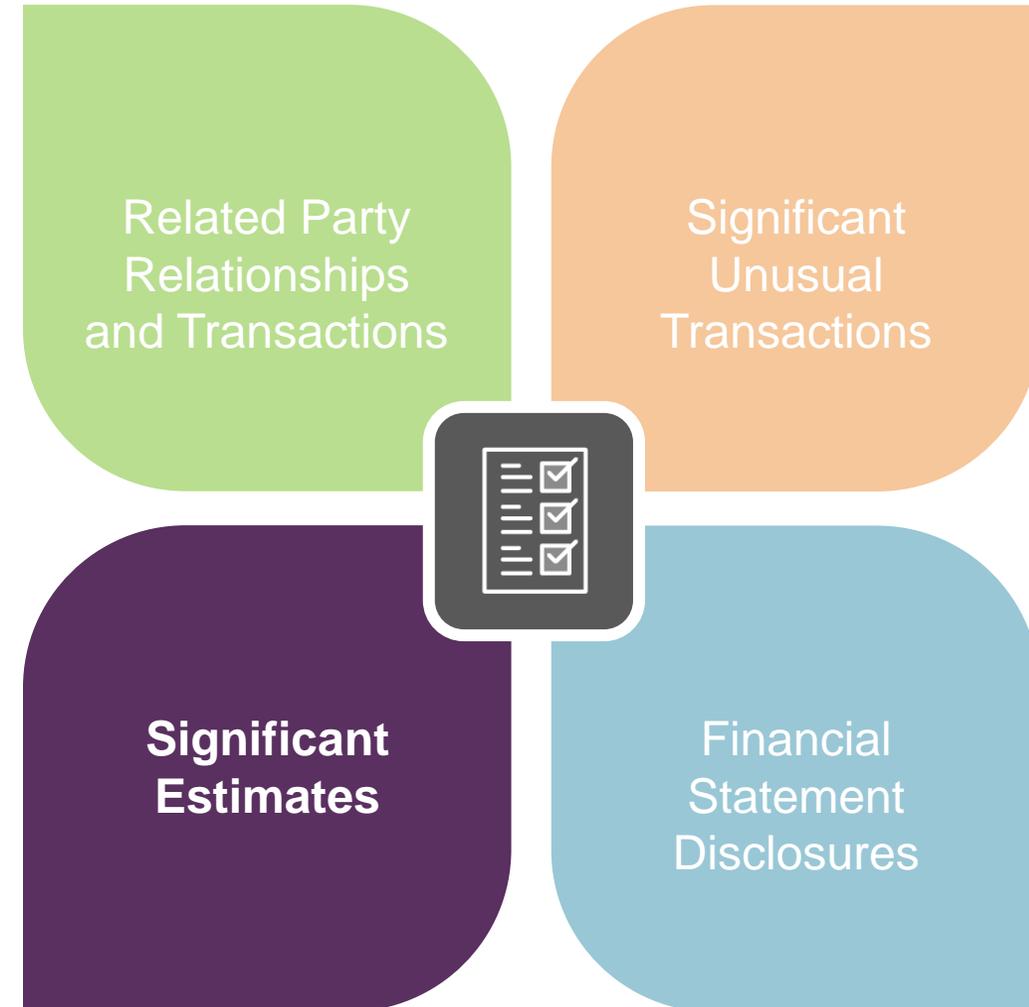


Qualitative Aspects of Accounting Practices

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Fair market value of investments
- Allowance for uncollectible accounts
- Capital asset useful lives
- Actuarial computations of pension and OPEB liabilities

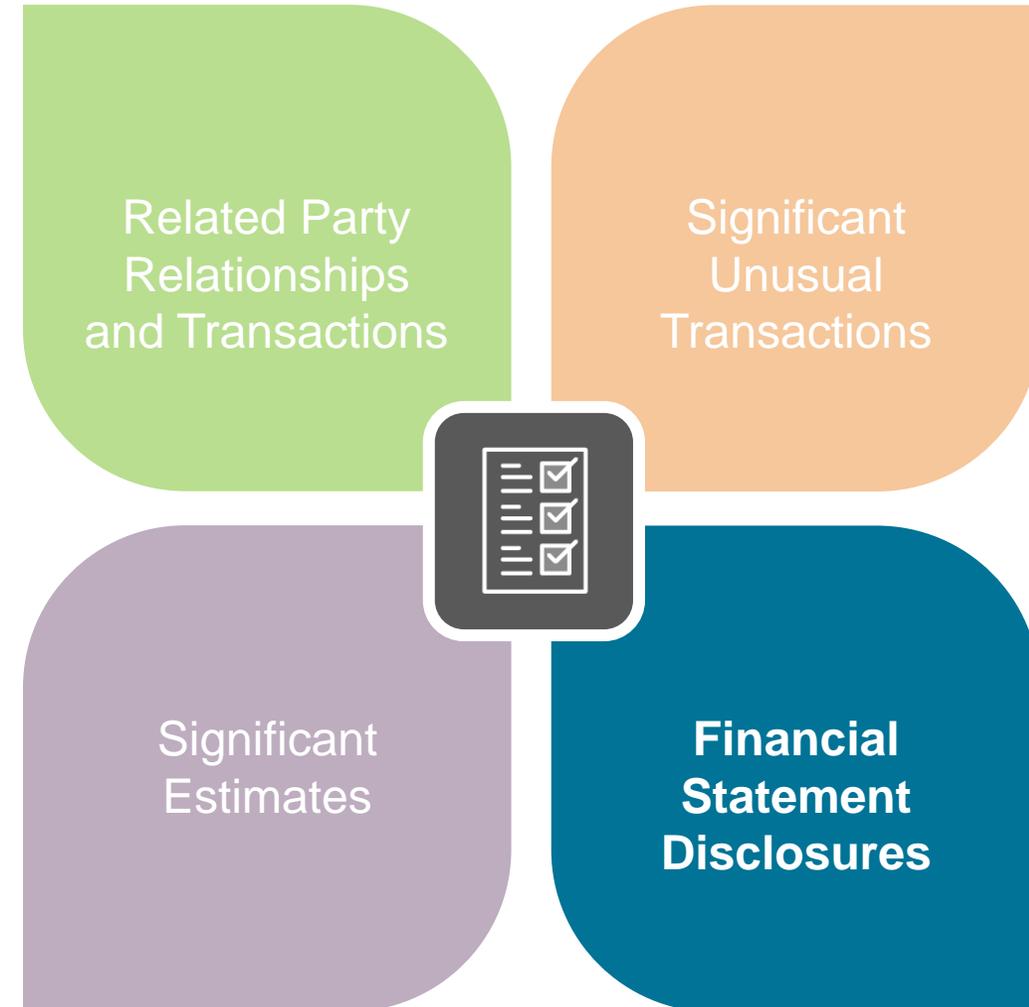
We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.



Qualitative Aspects of Accounting Practices

The financial statement disclosures are neutral, consistent, and clear.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.



Independence Considerations

Nonattest Services

- ▶ Complete the appropriate sections of and sign the Data Collection Form.
- ▶ For all nonattest services we perform, you are responsible for designating a competent employee to oversee the services, make any management decisions, perform any management functions related to the services, evaluate the adequacy of the services, and accept overall responsibility for the results of the services.

Independence Conclusion

- ▶ We are not aware of any other circumstances or relationships that create threats to auditor independence.
- ▶ We are independent of HRSD and have met our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits.



Other Required Communications

Difficulties Encountered

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Disagreements with Management

Includes disagreements on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report.

We are pleased to report that no such disagreements arose during the course of our audit.

Auditor Consultations

We noted no matters that are difficult or contentious for which the auditor consulted outside the engagement team.

Management Representations

We have requested certain representations from management that are included in the management representation letter which will be dated the date of our audit report.



Other Required Communications

Management Consultations

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations.

To our knowledge, there were no such consultations with other accountants.

Other Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year.

These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Fraud and Illegal Acts

As of the date of this presentation no fraud, illegal acts, or violations of laws and regulations noted.

Going Concern

No events or conditions noted that indicate substantial doubt about HRSD’s ability to continue as a going concern.



Other Matters

Required Supplementary Information

With respect to the required supplementary information and management's discussion and analysis accompanying the basic financial statements, we have applied certain limited procedures to the required supplementary information in accordance with generally accepted auditing standards, which consisted of inquiries of management about 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 do not express an opinion or provide any assurance on the information.



Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise HRSD's basic financial statements. The Introductory, Statistical and Other Supplemental Sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Introductory, Statistical and Other Supplemental Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



Questions?

Contacts

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Audit Manager

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About Cherry Bekaert LLP

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Fiscal Year – 2022
Annual Comprehensive Financial
Report

Finance Committee
November 10, 2022



- Awarded 39 Consecutive Years
- Disclosures and requirements becoming more complex and burdensome
- Dedication of service from the entire Department of Finance, especially the Accounting Division

Summary of Net Position

Summary of Net Position - Assets and Deferred Outflows As of June 30,

| | 2022 | 2021 | \$ Change | % Change |
|--|--------------|--------------|------------|----------|
| Unrestricted | | | | |
| Cash and cash equivalents - Current | \$ 163,051 | \$ 125,838 | \$ 37,213 | 30% |
| Cash and cash equivalents - Noncurrent | 62,932 | 65,054 | (2,122) | -3% |
| Total Unrestricted Cash and cash equivalents | 225,983 | 190,892 | 35,091 | 18% |
| Cash and cash equivalents - restricted | 33,134 | 30,455 | 2,679 | 9% |
| Total Cash and cash equivalents | 259,117 | 221,347 | 37,770 | 17% |
| Net OPEB Asset | - | 3,013 | (3,013) | -100% |
| Accounts Receivable (net) | 59,493 | 57,130 | 2,363 | 4% |
| Other | 2,860 | 4,619 | (1,759) | -38% |
| Inventory | 25,297 | 25,032 | 265 | 1% |
| Net Property Plant and Equipment | 1,715,108 | 1,604,841 | 110,267 | 7% |
| Total Assets | \$ 2,061,875 | \$ 1,915,982 | \$ 145,893 | 8% |
| Deferred Outflows of Resources | \$ 42,611 | \$ 42,277 | \$ 334 | 1% |

Summary of Net Position (Continued)

Summary of Net Position - Liabilities and Deferred Inflows

As of June 30,

| | 2022 | 2021 | \$ Change | % Change |
|--------------------------------------|--------------|------------|-----------|----------|
| Bonds Payable - Current | \$ 42,609 | \$ 38,419 | \$ 4,190 | 11% |
| Variable Rate Demand Bonds (current) | 50,000 | 50,000 | - | 0% |
| Bonds Payable - Long Term | 775,863 | 746,587 | 29,276 | 4% |
| Total Bonded Debt | 868,472 | 835,006 | 33,466 | 4% |
| Notes Payable | 33,721 | 15,299 | 18,422 | 120% |
| Net OPEB Liability | 16,523 | 5,529 | 10,994 | 199% |
| Net Pension Liability | 2,163 | 39,116 | (36,953) | -94% |
| Other Liabilities | 87,063 | 94,583 | (7,520) | -8% |
| | \$ 1,007,942 | \$ 989,533 | \$ 18,409 | 2% |
| Deferred Inflows of Resources | \$ 37,060 | \$ 17,902 | \$ 19,158 | 107% |

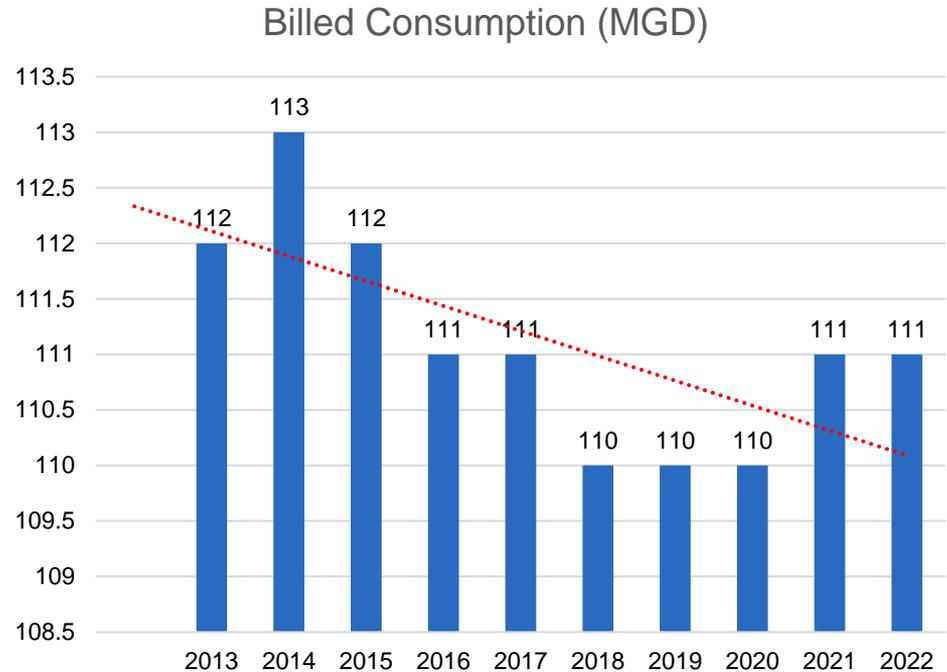
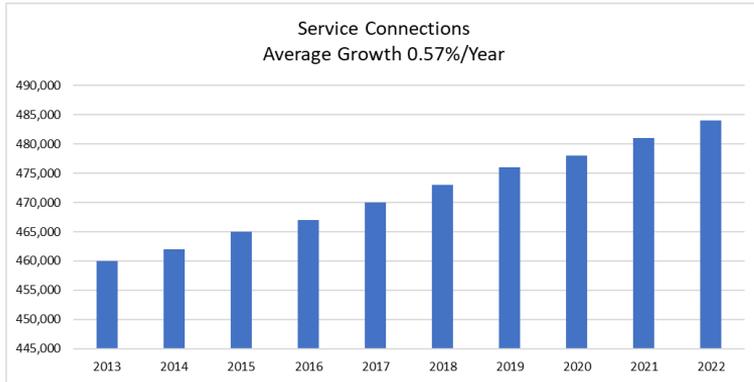
- Represents a consumption or acquisition of Net Assets that applies to future periods
 - Will be recognized as an expense or revenue in future years
 - Deferred outflows are reported similar to an asset amortized as an expense overtime
 - Deferred inflows are reported similar to a liability amortized as revenue over time
 - Examples:
 - Deferred loss on a refunding
 - Differences between actual and expected experience for Pension and OPEB plans
 - Changes in Pension or OPEB Plan Assumptions

Summary of Revenues, Expenses, and Changes in Net Position For The Years Ended June 30

| | 2022 | 2021 | \$ Change | % Change |
|------------------------------------|-------------------|------------------|------------------|-------------|
| Wastewater Treatment Charges | \$ 352,414 | \$ 325,817 | \$ 26,597 | 8% |
| Facility Charges | 7,072 | 7,379 | (307) | -4% |
| Investment Income | (1,651) | 471 | (2,122) | -451% |
| Bond Interest Subsidy | 2,052 | 2,167 | (115) | -5% |
| Other | 5,532 | 3,952 | 1,580 | 40% |
| Total Revenues | 365,419 | 339,786 | 25,633 | 8% |
| Expenses | | | | |
| Wastewater Treatment | 134,135 | 132,820 | 1,315 | 1% |
| General and Administrative | 45,673 | 48,691 | (3,018) | -6% |
| Depreciation and Amortization | 54,357 | 53,278 | 1,079 | 2% |
| Interest Expense | 25,007 | 25,339 | (332) | -1% |
| Other | 324 | 1,058 | (734) | -69% |
| Total Expenses | 259,496 | 261,186 | (1,690) | -1% |
| Capital Contributions | | | | |
| State Capital Grants | 200 | - | 200 | 100% |
| Other Capital Contributions | 2,537 | 2,317 | 220 | 9% |
| Total Capital Contributions | 2,737 | 2,317 | 420 | 109% |
| Change in Net Position | \$ 108,660 | \$ 80,917 | \$ 27,743 | 34% |

Wastewater Treatment Changes

- 96.4% All Revenues are Wastewater Treatment Charges



- Investment Strategy
 - Operating Liquidity Strategy – day to day operational and liquidity needs
 - Total Return Strategy – not expected to be a major source of operating funds
- Approximately \$65 million held in high quality bond fund (4th quarter weighted average credit rating AA)
- Investments are adjusted to market value
- Price of a bond is determined by discounting future cash flows and is inversely related to interest rates

Cost Increases by Category

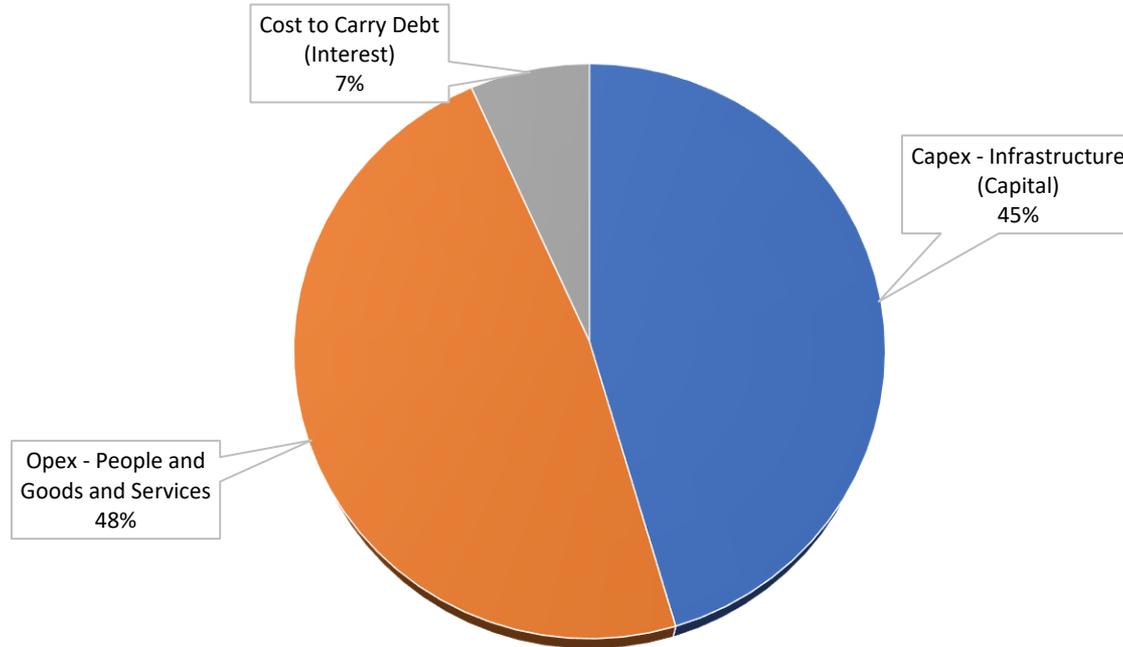
| Operating Expenses | 2022 | 2021 | \$ Change | % Change | |
|------------------------|------------|------------|-----------|----------|---|
| Personal Services | \$ 61,157 | \$ 60,250 | \$ 907 | 2% | Salary increase offset by retirements and separations |
| Fringe Benefits | 20,467 | 23,879 | (3,412) | -14% | Benefit cost increases offset by large (\$5.5 million) VRS pension adjustment |
| Materials and Supplies | 9,495 | 11,413 | (1,918) | -17% | \$1.8 million expense of inventory adjustment in 2021 |
| Transportation | 1,380 | 1,100 | 280 | 25% | |
| Utilities | 13,762 | 12,947 | 815 | 6% | Inflationary pressures = significant utility rate increases |
| Chemical Purchases | 10,044 | 8,719 | 1,325 | 15% | Inflationary pressures = Chemical cost increases |
| Contractual Services | 41,904 | 37,278 | 4,626 | 12% | \$9.2 capital projects expensed from capital plan costs included in MR/R, Contractual Services, etc |
| Major Repairs | 8,853 | 6,758 | 2,095 | 31% | |
| Capital Assets | 2,029 | 1,567 | 462 | 29% | |
| Miscellaneous | 2,385 | 2,685 | (300) | -11% | |
| | \$ 171,476 | \$ 166,596 | \$ 4,880 | 3% | |

Summary of Cash Flows For The Years Ended June 30

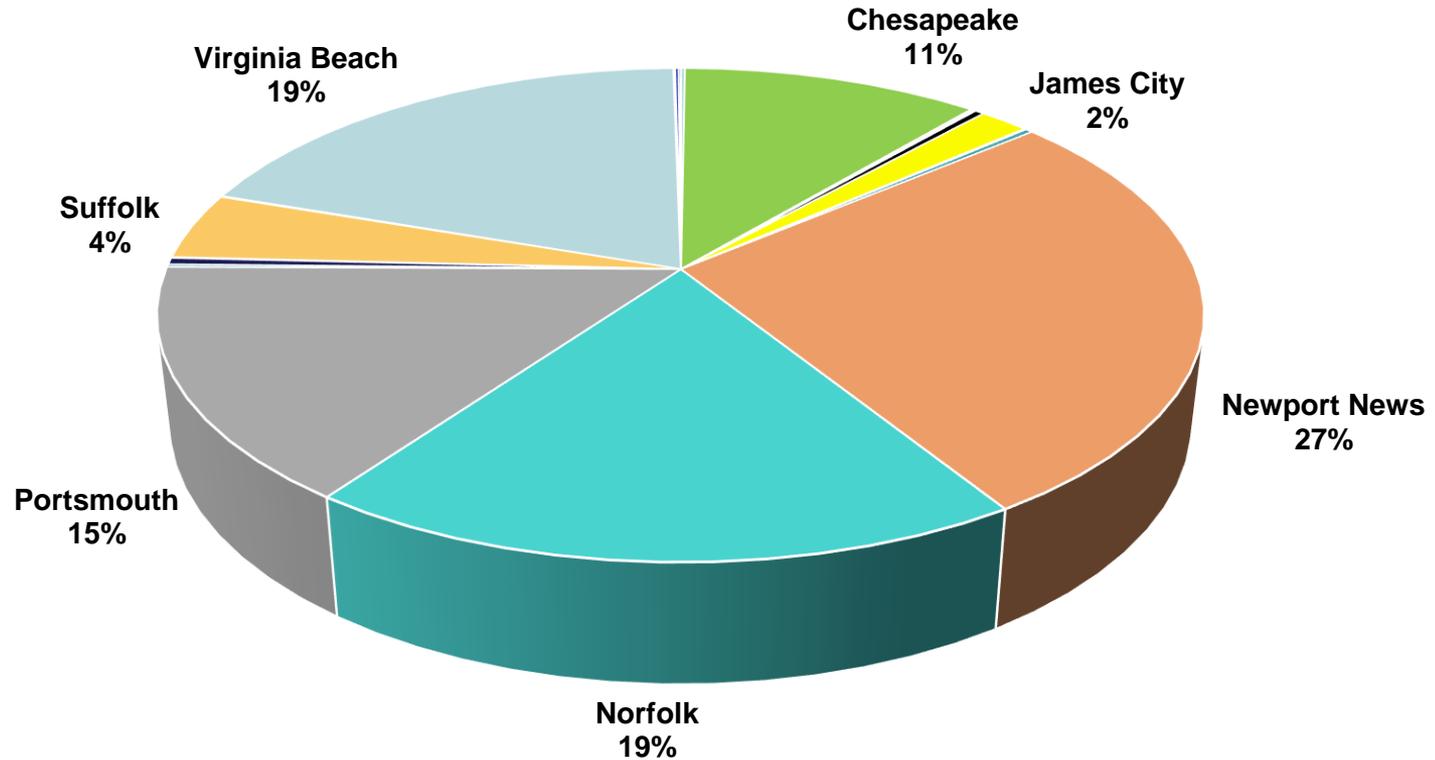
**Summary of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30,**

| | 2022 | 2021 | % Change |
|--|------------|-------------|----------|
| Cash Flows from Operating Activities | | | |
| Cash Received from Customers | \$ 337,432 | \$ 302,160 | 12% |
| Cash Received from CARES Act and ARPA | 11,409 | 4,163 | 174% |
| Other | 5,532 | 3,952 | 40% |
| Cash Payments for Goods & Services and Employees | (182,354) | (179,302) | 2% |
| Net Cash Provided | 172,019 | 130,973 | 31% |
| Cash Flows from Capital and Financing Activities | | | |
| Facility Charges | 7,072 | 7,379 | -4% |
| Capital Plan Expenses | (173,392) | (180,623) | -4% |
| Proceeds from Capital Debt | 90,377 | 60,751 | 49% |
| Principal Paid | (35,228) | (42,206) | -17% |
| Interest Paid | (25,790) | (27,007) | -5% |
| Other | 4,376 | 3,720 | 18% |
| Net Cash Used | (132,585) | (177,986) | -26% |
| Other Cash Flows | (1,664) | 95 | -1852% |
| Net Increase (Decrease) in Cash and Cash Equivalents | \$ 37,770 | \$ (46,918) | 181% |

Where do we spend our money?



Where ARPA \$ was distributed



Note: Recorded as a contribution on the Fiduciary Statements

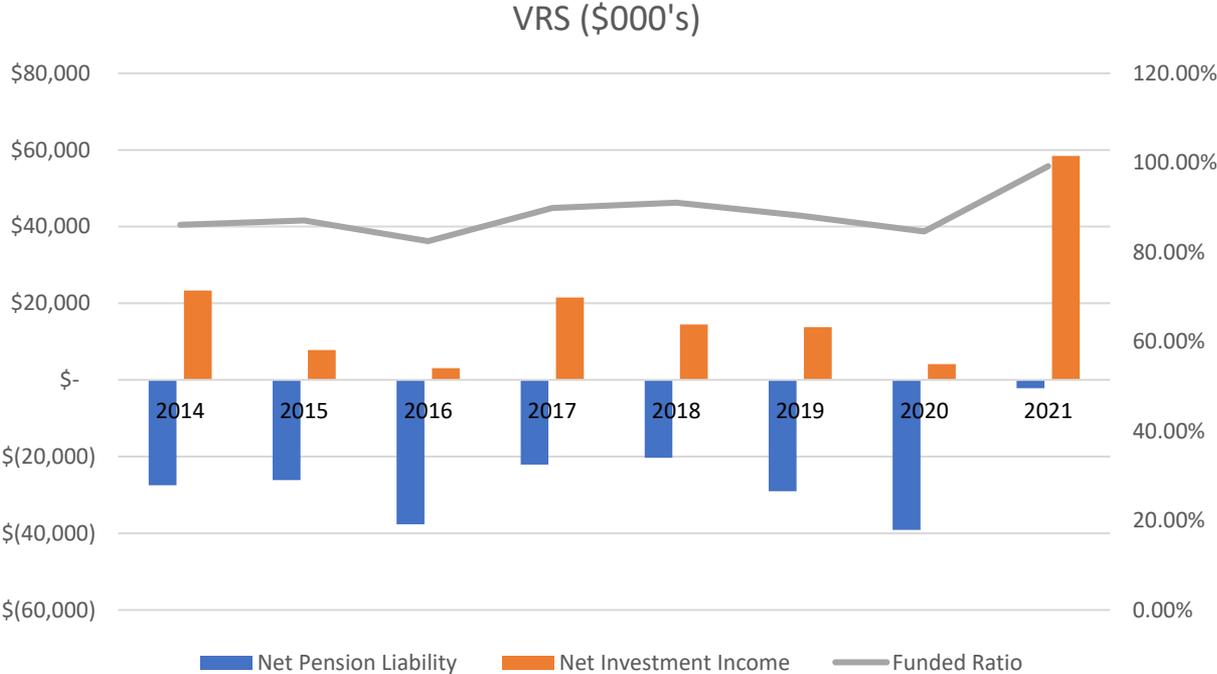
Pension and Retiree Health Plan Trust Other Post-Employee Benefits (OPEB)

- Pension and OPEB plans are pre-funded trusts where money is set aside to pay for benefits promised
- Financial statement impacts
 - When assets=liabilities = No financial statement impact
 - When assets>liabilities = Net asset on financial statements
 - When assets<liabilities = Net liability on financial statements

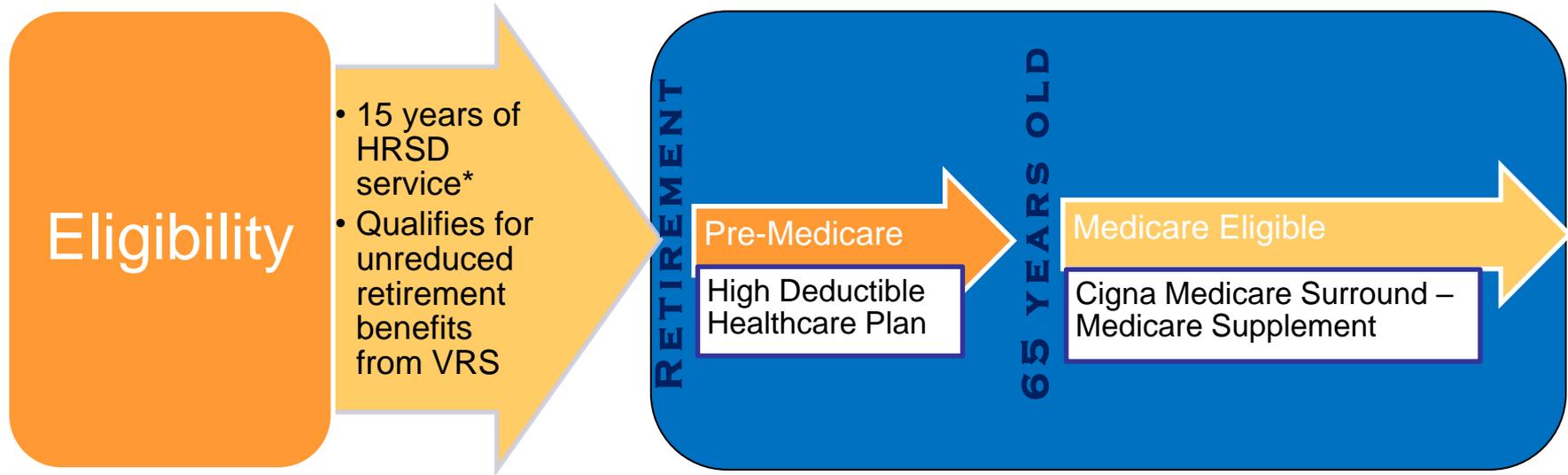
| June 30, | Virginia Retirement System | | | HRSD | |
|------------------------------|----------------------------|--------------------|-------------------------------|---------------------------------|-------------|
| | 2021 | | | 2022 | |
| | Pension | OPEB | | | |
| | VRS 1 & 2, Hybrid Plan | Group Term Life | Health Insurance Credit | Retiree Health Plan (RHP) | Total OPEB |
| Total Liability | \$ (270,323) | \$ (3,058) | \$ (2,196) | \$ (74,541) | \$ (79,795) |
| Fiduciary Net Position (MVA) | 268,160 | | 1,135 | 62,137 | 63,272 |
| Net Asset (Liability) | (2,163) | (3,058) | (1,061) | (12,404) | (16,523) |
| Funded Ratio | -99.20% | 67.45% | 51.68% | 83.36% | |

Virginia Retirement System

- Valuation to June 30, 2021
- Return 2021 – 27.5%
- Return 2022 – 0.6%

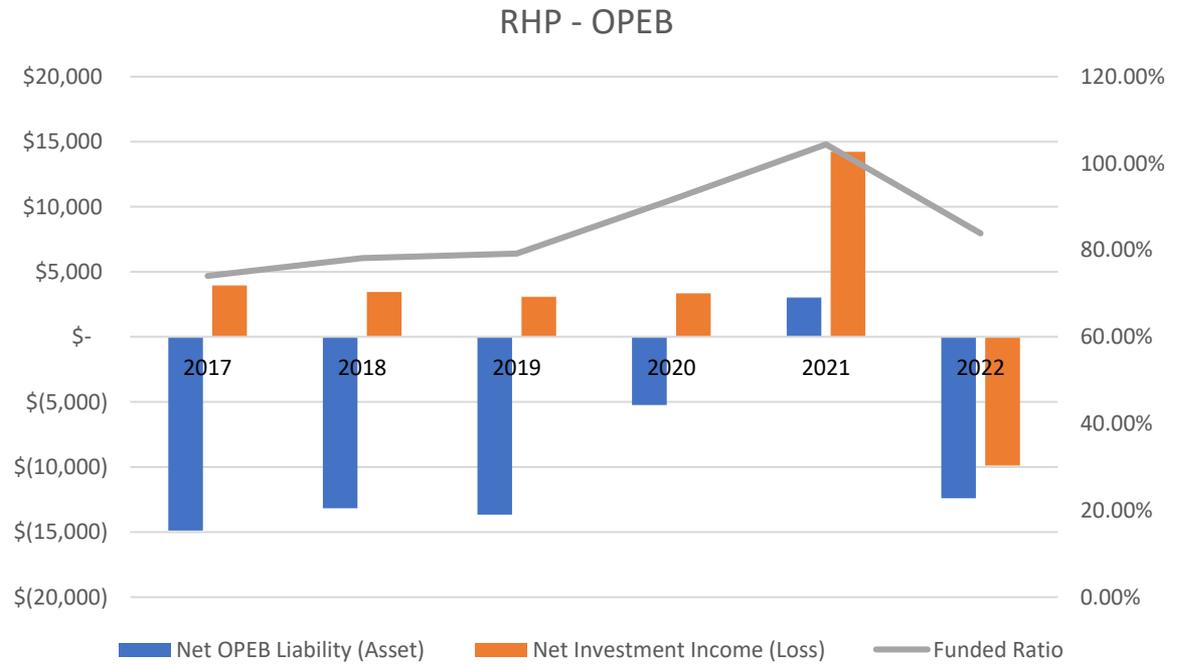


Retiree Health Plan (RHP)



- Retiree responsible for:
 - Deductibles
 - Co-payments
 - Retiree Premiums
 - Less than 65 = \$120/month (High Deductible Plan), Spouse \$415
 - Greater than 65 = \$45/month (Medicare Supplement), Spouse \$397

- Valuation to June 30, 2022



RHP - What a difference a year makes...

| | 2022 | 2021 | % Change |
|--------------------------------|-------------|-------------|-----------------|
| Membership June 30 | | | |
| Employed with Medical Coverage | 702 | 743 | -6% |
| Retirees <age 65 | 112 | 78 | 44% |
| Retirees >age 65 | 128 | 112 | 14% |
| Total | 942 | 933 | 1% |

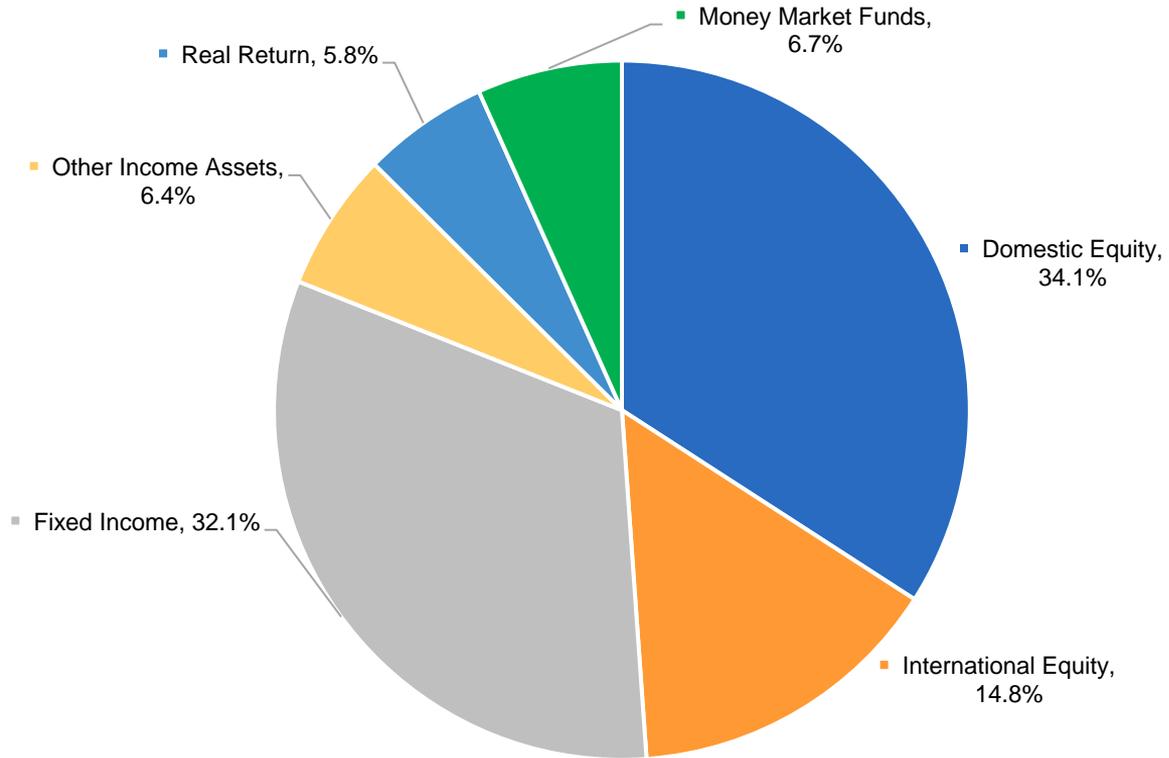
| | | | |
|-----------------------------------|-------------|-----------|------|
| Plan Fiduciary Net Position (MVA) | \$ 62,137 | \$ 71,666 | -13% |
| Total OPEB Liability | \$ 74,540 | \$ 68,653 | 9% |
| Net OPEB (Liability)/Asset | \$ (12,403) | \$ 3,013 | |

Funded Ratio 83% 104%

Market Value - Returns

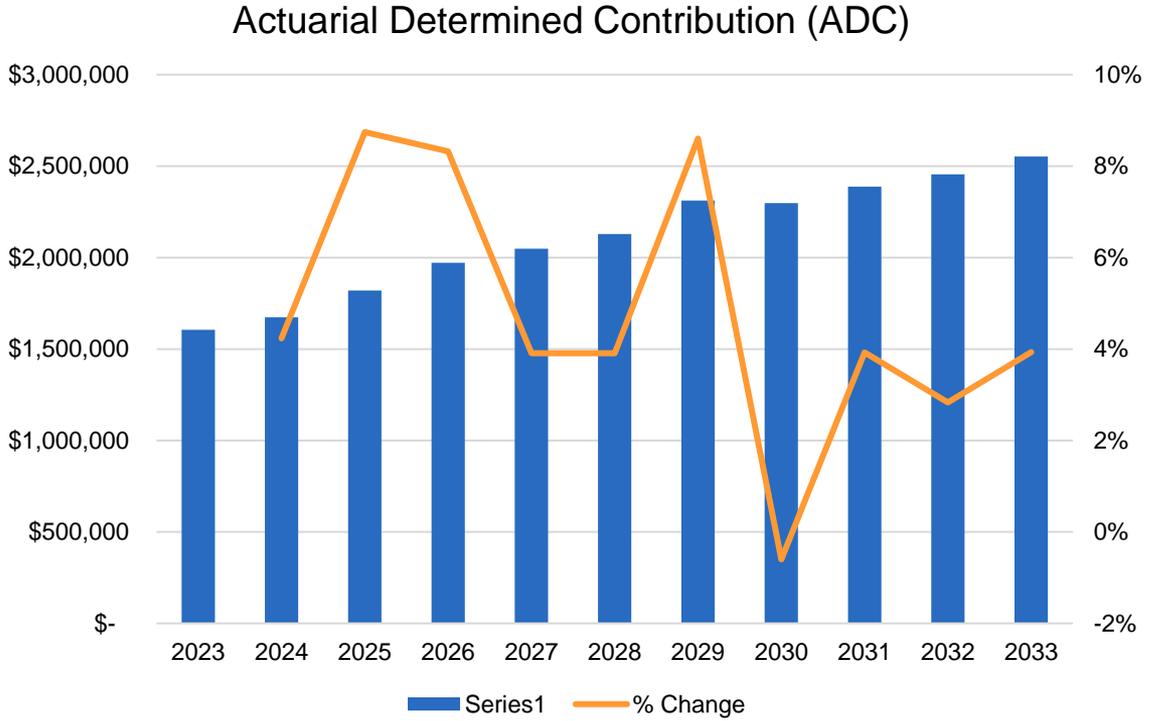


RHP – Asset Allocation - June 30, 2022



RHP – Projection of Future Contributions

- Key Assumptions
 - Demographic
 - Mortality
 - Economic (Including Medical Inflation)
 - Payroll Costs
 - Discount/Earnings Rate (6%)



Key Financial Policy Indicators

$$\text{Debt Service Coverage Ratio} = \frac{\text{REVENUES} - \text{EXPENSES}}{\text{Principal} + \text{Interest}}$$

- *How much income will you have to pay Debt Service (principal + interest)?*
- *Measure of sufficiency of revenues and rates to meet obligations*
- *Quantifies **RISK** - Likelihood bond investors get paid back?*

Debt Service Coverage Ratio (DSCR) by Trust Agreement

SENIOR TRUST AGREEMENT

Total Debt Service Coverage Requirement

| | |
|---|--------------|
| Total Debt Service Coverage Ratio – Max Annual DS (Year 2025)* | 2.12x |
| Legal Coverage Requirement | 1.00x |
| Debt Service Reserve Fund Test | 1.35x |

SUBORDINATE TRUST AGREEMENT/FINANCIAL POLICY

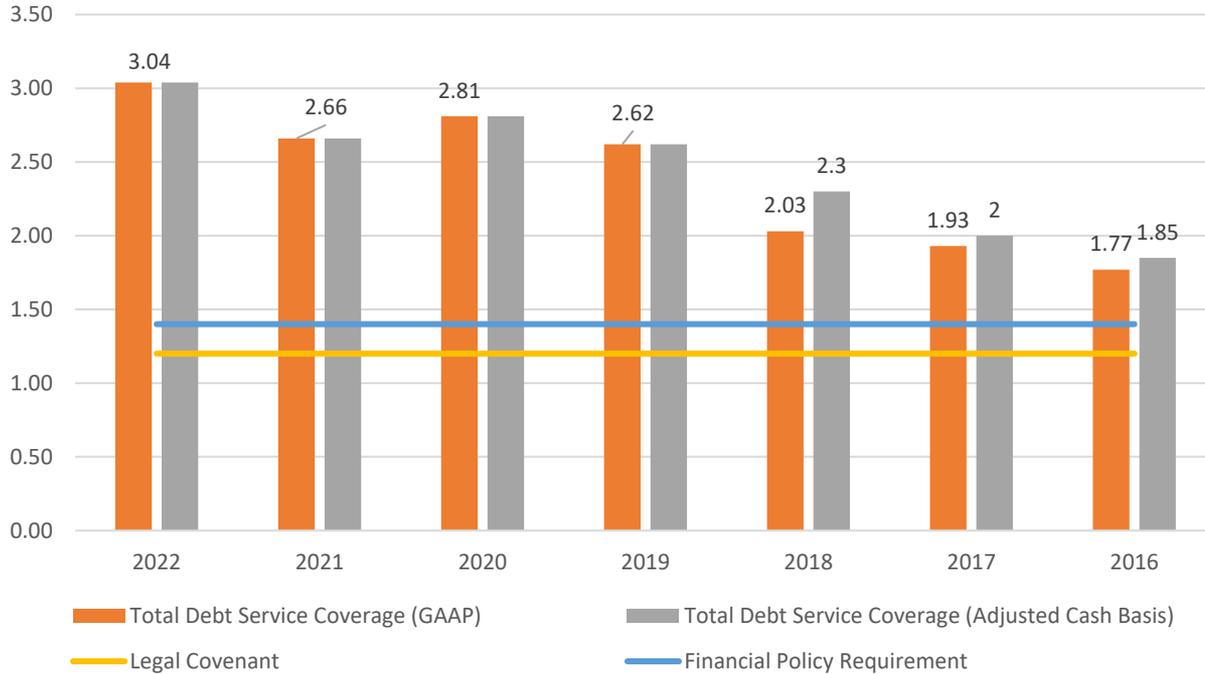
Total Debt Service Coverage Requirement

| | |
|---|--------------|
| Total Debt Service Coverage Ratio – GAAP (2022) | 3.04x |
| Total Debt Service Coverage Ratio – Adjusted Cash Basis (2022) | 3.04x |
| Financial Policy Requirement | 1.40x |
| Legal Coverage Requirement | 1.20x |

*Max Annual Debt Service occurs in Year 2025 due to VRA loans

Debt Service Coverage

Subordinate Trust Agreement



| Fitch 2021 Medians | DSCR |
|--------------------|------------|
| AAA | 3.3 |
| AA | 2.6 |
| A | 2.1 |
| All | 2.6 |
| Large | 2.4 |

| HRSD Ratings | Senior | Subordinate |
|----------------|------------|-------------|
| Moody's | Aa1 | Aa1 |
| S&P | AA+ | AA+ |
| Fitch | AA+ | AA |

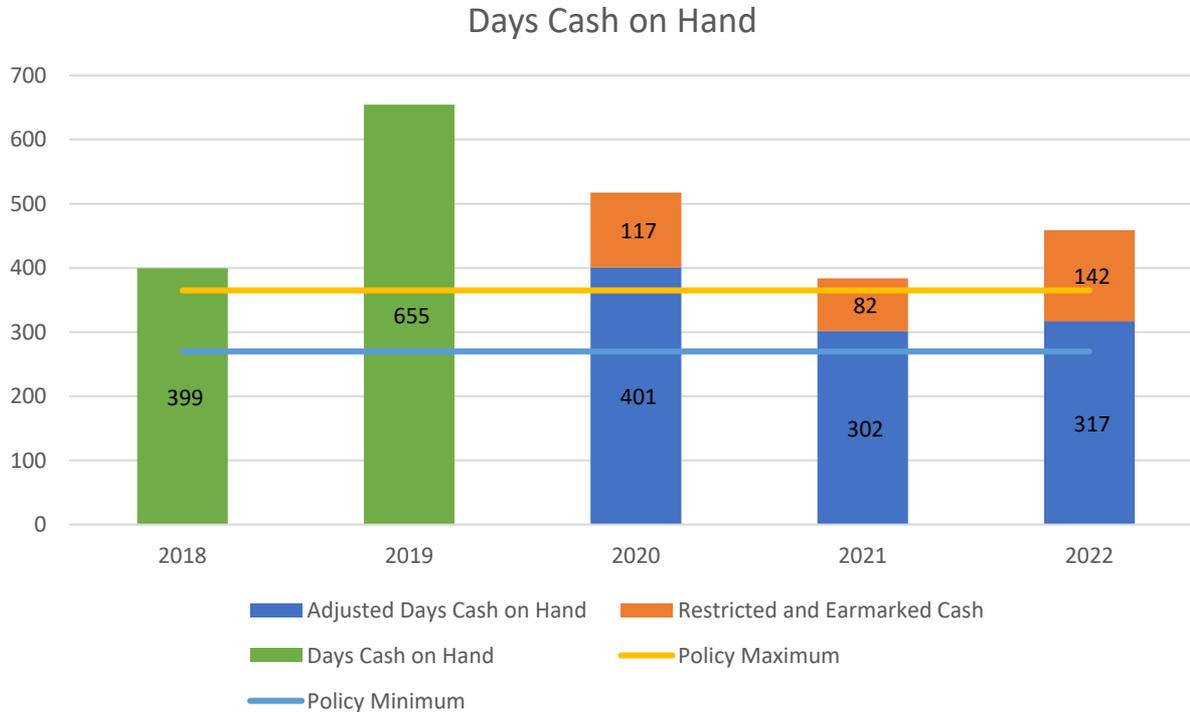
- Liquidity indicates financial flexibility to pay near-term obligations and margin of safety
- Adjusted Days Cash on Hand (ADCOH)
 - Excludes reserves and PAYGO for CIP
- How many days can you operate with available cash if no revenue is coming in?

$$\text{ADCOH} = \frac{\text{Unrestricted Cash and Investments}}{\text{Operating Expenses} \div 365 \text{ days}}$$

(EXCLUDES RESERVES AND PAYGO FOR CIP)

HRSD POLICY - Min = 270 ADCOH, Max = 365 ADCOH

Adjusted Days Cash on Hand (DCOH)



| Fitch 2021 Medians | Total |
|--------------------|------------|
| AAA | 559 |
| AA | 581 |
| A | 647 |
| All | 571 |
| Large | 538 |

| HRSD Ratings | Senior | Subordinate |
|----------------|------------|-------------|
| Moody's | Aa1 | Aa1 |
| S&P | AA+ | AA+ |
| Fitch | AA+ | AA |

- Financial health is sound, but headwinds exist
 - Future water consumption trends
 - Expenses are impacted by rising inflation, supply chain issues
 - Capital Plan remains largely regulatorily driven and expansive
 - Losses in Pension and RHP will drive up contribution requirements



Financial Policy Review
Recommended Changes 2022
Finance Committee
November 10, 2022

- Adopted 2009 after detailed study
- “Living” document that requires a biannual review for sufficiency by staff, Financial Advisors and Bond Counsel
- Establishes targets and guidelines to help ensure financial stability
- Establishes parameters and restrictions on management actions
- This year’s changes are largely administrative in nature

1. Definitions
2. Guiding Principles
 - a. Reserves
 - b. Budgetary
 - c. Accounting and Internal Controls
 - d. Risk Management
 - e. Audits
3. Debt Management and Disclosure
4. Derivatives
5. Investments
6. Retiree Health Plan Trust Investments

- Clarifies definition of Arbitrage to include tax “advantaged” bonds not just tax-exempt bonds to encompass HRSD’s Series 2009 Build America Bonds outstanding
- **Arbitrage.** The simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments in different markets or in different forms. For the purposes of this Policy, Arbitrage refers to the difference between the interest paid on the tax-advantaged securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. The IRS Code governs arbitrage on the proceeds of or security for the repayment of tax-advantaged municipal securities.

- Clarifies and simplifies the definition of Operating Expenses
 - Operating Expenses includes those expenses required to pay the cost of maintaining, repairing and operating the Wastewater System, including, but not limited to, reasonable and necessary usual expenses of administration, operation, maintenance and repair, costs for billing and collecting the rates, fees and other charges for the use of or the services furnished by the Wastewater System, insurance premiums, credit enhancement and liquidity support fees, legal, engineering, auditing and financial advisory expenses, expenses and compensation of the Trustee, and deposits into a self-insurance program. Operating Expenses shall exclude allowance for depreciation and amortization and expenses for extraordinary maintenance or repair or improvements. In the Subordinate Trust Agreement only (i.e., not in the Senior Trust Agreement), Operating Expenses shall also exclude expenses for improvements that will not be owned by HRSD, but which will, in the reasonable determination of the Commission, as evidenced by a resolution thereof, maintain or improve the integrity of the Wastewater System.

- Incorporates SOFR as the default replacement of the discontinued London InterBank Offered Rate (LIBOR)
 - **Secured Overnight Financing Rate (SOFR)**. SOFR is a benchmark interest rate in the taxable bond market. SOFR represents a secured interbank overnight interest rate. SOFR is also available in certain longer terms (e.g., 1 month, 3-month, 6 month). With the discontinuation of LIBOR, SOFR is the default replacement in many cases.

- Incorporates the definition of the WIFA Master Agreement
 - **WIFIA Agreements.** Means the WIFIA Master Agreement, dated as of September 28, 2020, between the EPA and HRSD, and each of the loan agreements entered into thereunder from time to time

- Adds cryptocurrencies as a prohibited investment in the Retiree Health Plan Trust
- **Prohibited Investments.** Except for purchase within authorized investments, the following investments and transactions are not authorized and will not be purchased:
 - Letter stock and other unregistered securities,
 - Direct commodities or commodity contracts,
 - Short sales,
 - Margin transactions,
 - Private placements (with the exception of Rule 144A securities),
 - Venture capital funds,
 - Private equity,
 - Hedge funds;
 - Cryptocurrencies