Debt Management Policy

Approved April 7, 2020

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Las Virgenes Municipal Water District
Debt Management Policy

1.0 AUTHORITY

This Debt Policy was adopted by the Board of Directors of the Las Virgenes Municipal Water District at its regular meeting on April 7, 2020. Any modifications to this policy must be approved by the Board of Directors at a duly noticed public meeting.

2.0 SCOPE

This debt policy sets forth debt management objectives for the District and establishes general parameters for issuing and administrating the District's debt. This policy applies to all debt issued or incurred by the District, including, but not limited to, loans, private placements, municipal bonds, and credit lines. This policy does not cover credit or purchasing card debt or pension and Other Post-Employment Benefits (OPEB).

3.0 POLICY STATEMENT

Las Virgenes Municipal Water District favors a pay-as-you-go program for capital projects. However, the District will consider debt financing under the following conditions:

1) When the project's expected useful life will exceed the term of the financing.
2) When the project revenues or specific resources will be sufficient to service the long-term debt.

The District shall consider the following factors prior to issuing debt:

1) Revenues have been identified to service the long-term debt.
2) Impact on District reserves and operating budget.
3) The impact on customer rates.
4) The project securing the debt is of the type that will support a good credit rating.
5) Market conditions present favorable financing terms.
6) The project is mandated to meet State or Federal standards.
7) The project is required to meet current or projected capacity requirements.
8) The project's useful life.
9) The project's cost.

The District shall not utilize debt for operations or maintenance activities.

4.0 METHODS OF FINANCING

The Director of Finance and Administration will investigate all possible financing alternatives including, but not limited to, grants, loans, and bonds.

4.1 Cash

The District favors pay-as-you-go and funds a significant portion of its capital projects through this strategy that utilizes current cash on hand.

4.2 Grants

The District will first look to grants to supplement capital project financing.

4.3 Interfund Borrowing

The District may borrow funds from an enterprise that has sufficient cash in excess of the District's reserve policy for the following purposes:

1) For short-term borrowing due to imbalances caused by timing of grants or other borrowing methods.
2) For projects under $10 million.
3) For repayment terms of five years or less.

For interfund borrowing, the Director of Finance shall determine that the loan will not negatively impact the enterprise that is loaning the funds and that the loan will not cause reserve levels to be below policy limits. Interfund loans will have a floating interest rate based on the "Total Portfolio Yield" as reported on each month's Monthly Cash & Investment Report, a loan agreement, and a repayment schedule approved by the Board of Directors.

4.4 Bank Loans/Lines of Credit

The District may seek out bank loans or lines of credit when such terms are beneficial to the District over other financing methods.

4.5 Other Loans

The District will evaluate other loan programs, including but not limited to, State Revolving Fund (SRF) programs, Water Infrastructure Finance and Innovation Act (WIFIA), California Special Districts Association (CSDA), and other specialized loan programs.

4.6 Lease – Purchase Agreements

The District will evaluate lease-purchase agreements as a means to finance capital projects.

4.7 Debt Financing

The District may issue debt as allowed under federal and state law either. Debt financing through a Public Finance Authority (PFA) or through a Joint Powers Authority (JPA) shall also be evaluated.

(a) **Bond Anticipation Notes and Refunding Agreements**
Bond Anticipation notes and other interim financing methods may be utilize to cover short-term financing needs in anticipation of long-term future debt issuance.

5.0 PROHIBITED DEBT

The District shall not issue debt for purposes not expressly allowable under this policy. The District shall not issue utilize financing methods not expressly allowed under this policy.

6.0 FINANCING TEAM

The Financing Team is the working group of staff and consultants necessary to complete a debt issuance. The team includes bond counsel, disclosure counsel, underwriter, and financial advisor, and may include trustee, pricing consultants, and/or arbitrage analyst. The team also typically includes the General Manager, Director of Finance and Administration, and the Finance Manager.

6.1 Consultant Selection

The District will consider the professional qualifications and experience of consultants as it relates to the specific debt issuance. The District recognizes the benefits of long-term relationships with the financial advisor and bond counsel and will seek proposals for these services at least once every ten years. All other consultants will be reviewed with each debt issuance to insure that the expertise for the particular debt instrument is available.

7.0 STRUCTURE AND TERM OF DEBT

7.1 Term of Debt

The District will structure debt for the shortest possible period. In no case will debt exceed 30 years. Considerations for the term of the debt shall be:

1) Anticipated useful life of the project.
2) Ability to fund with pay-as-you-go funds.
3) Current and future revenue available to make debt payments.

7.2 Debt Repayment Structure

The District will seek to structure the debt with a level repayment schedule to ensure budget certainty.

7.3 Debt Maturity Options

For each issuance, the District will select either serial, term bonds, or both.

7.4 **Interest Rate Structure**

The District will issue long-term debt and enter into other forms of debt arrangements with a preference for fixed interest rate to ensure budget certainty.

7.5 **Call/Put Options**

A call option is utilized to allow the District to retire debt earlier than its stated maturity. For new debt, the District will consider the cost and benefits of providing a call option.

A put option provides the holder of the debt the option to require the District to pay back the principal of a debt prior to its stated maturity date. The District will not utilize put options.

7.5 **Credit Enhancements**

Credit enhancements such as bond insurance, letters of credit, and surety policies may be utilized to improve credit ratings when total cost savings can be achieved.

7.6 **Reserve Fund**

Debt service reserve funds are held by a trustee or the District and are utilized to make debt service payments should the District fail to generate sufficient annual revenues or fail to fund the Rate Stabilization Fund. The District will seek to minimize the use of reserve funds and may consider substituting letters of credit, bond insurance, or surety policies.

7.7 **Debt Limits**

The District will not issue debt in excess of that provided for by State or Federal limits. Annual debt service obligation shall not exceed 15% of each enterprises' annual operating revenue.

7.8 **Use of Derivatives**

The District shall not utilize derivatives.

8.0 REFUNDINGS

The District will refinance debt to achieve cost savings or to modify debt covenants. When refinancing for cost savings, the District will target a 5% reduction in net present value. Refunding to lengthen the term of the debt will only be permissible if the new term does not exceed the expected useful life of the project the debt was issued for.

9.0 DEBT MANAGEMENT

9.1 Method of Sale

The District, with its financial advisor, will evaluate the most cost efficent method of issuing debt. Debt may be issued through a competitive sale, a negotiated sale, or other placement, including placements with local, state, or federal agencies.

9.2 Initial Disclosure Requirement

The District recognizes its disclosure responsibilities and will hire disclosure counsel for debt sales. The District will comply with Securities and Exchange Commission Rule 10b-5 and all other applicable rules.

9.3 Ratings

The District will seek to manage its finances in a manner that results in high bond ratings to reflect high credit worthiness of the District. The District recognizes that the District's fiscal status, reserve levels, rate schedule, credit history, and management capabilities are reflected in bond ratings and evaluations of credit worthiness. The financing team will evaluate whether and when one or more ratings will be sought. The Director of Finance and Administration will be the primary point of contact to ratings agencies.

9.4 Investment of Proceeds

The Director of Finance and Administration shall invest proceeds and reserve funds in accordance with the indenture and in compliance with the District's Investment Policy. The Director of Finance and Administration shall also ensure compliance with arbitrage requirements.

9.5 Use of Proceeds

The Director of Finance and Administration shall ensure that debt proceeds are utilized for the intended purpose.

9.6 Ongoing Disclosure

The Director of Finance and Administration shall ensure compliance with all continuing disclosures requirements, including but not limited to SB 1029, Securities and Exchange Commission Rule 15c2-12, and required disclosure to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system.