NORTH MARIN WATER DISTRICT

BOARD POLICY: DEBT MANAGEMENT
BOARD POLICY NUMBER: 47

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Last Reviewed:
Last Revised:

INTRODUCTION

This Debt Management Policy ("Debt Policy") of the North Marin Water District ("District") sets forth debt management objectives for the District and provides policy guidelines to decision makers.

Implementation of the Debt Policy will help to ensure that the District maintains a sound debt position and protects its credit quality, as well as maintains compliance with California Government Code Section 8855 (i), which requires issuers of public debt to certify with the California Debt and Investment Advisory Commission (CDIAC) that the issuer has adopted a local debt policy concerning the use of debt, and that any proposed debt issuance is consistent with said policy.

The Debt Policy may be utilized by staff with the discretion to deviate as determined appropriate by the General Manager to affect the prudent management of the debt and capital financing needs of the District.

POLICY STATEMENT

A. Purposes for Which Debt Proceeds May Be Used

(i) Long-Term Debt: Debt having a maturity of more than one year may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned by the District when it is appropriate to spread the financing over the useful life of the project to be financed.

Long-term debt may also be used to refinance outstanding debt, fund capitalized interest, costs of issuance, required reserves, and other financing related costs which may be capitalized.

(ii) Short-Term Debt: Debt having a maturity of one year or less may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance.

B. Types of Debt That May Be Issued

The following types of debt are allowable under this Debt Policy:

- General obligation bonds
- Revenue bonds and certificates of participation
- Loans from a bank of state agency
- Bond, grant or revenue anticipation notes
- Lease-purchase transactions
- Land-secured financings, such as tax assessment bonds issued under the Mello-Roos Community Facilities Act

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

The District shall issue debt with an average life less than or equal to the average life of the assets being financed.

To preserve flexibility and refinancing opportunities, District debt will generally be issued with call provisions which enable the District to retire the debt earlier or enable the refunding of the debt prior to maturity.

The District Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

C. Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning and intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's Capital Improvement Projects budget.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

D. Policy Goals Related to the District's Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit rating, with a goal of at least AA, and thereby achieve the lowest practical borrowing costs. To that end, the District intends to maintain an average debt service coverage ratio of 1.5.

The District shall maintain strict compliance with covenants regarding coverage of annual debt service by net revenues embodied in the terms of debt instruments. This will support strong bond credit ratings and provide annual revenues to fund capital improvements.

The District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The General Manager shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies shall include:

- Full disclosure, on an annual basis, of the financial condition of the District;
- A formal presentation when requested by the rating agencies, covering economic, financial, operational and other issues that impact the District's credit;
- Timely disclosure of major financial events that impact the District's credit; and
- Timely dissemination of the Comprehensive Annual Financial Report, following its acceptance by the District's Board of Directors.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related rates, charges and tax assessments.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The District shall fully budget all its debt service obligations annually.

District accounting staff shall maintain records documenting the use of debt proceeds and shall prepare external reports as required by State law.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to the District upon the submission of written requisitions by the District Auditor-Controller, or (b) by the District, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the District.

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