

Resolution No: 16-18

*A Resolution of the Board of Directors
of Camrosa Water District*

Establishing a Debt Management Policy

Whereas, the Camrosa Water District has a long history of issuing debt instruments to provide financing for various capital improvement projects; and

Whereas, the Camrosa Water District also has a long history of conservative, prudent financial practices relating to debt issuance; and

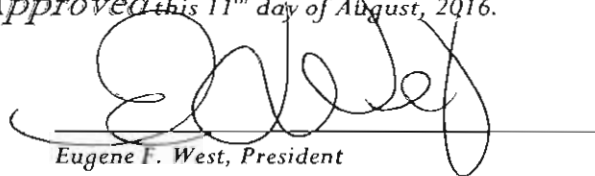
Whereas, the purpose of the debt management policy is to assist the District in pursuit of the following equally important objectives:

- Achieve the lowest cost of capital
- Ensure ratepayer equity
- Maintain a credit rating strategy and access to credit enhancement
- Preserve financial flexibility; and

Whereas, the Camrosa Water District established a debt management policy, memorializing these past and current practices as formal policy and establishing best practices of debt management for the District.

Now, Therefore, Be It Resolved by the Camrosa Water District Board of Directors that the proposed Debt Management Policy is hereby approved and adopted, and the General Manager is authorized to implement the policy.

Adopted, Signed, and Approved this 11th day of August, 2016.



Eugene F. West, President
Board of Directors
Camrosa Water District

ATTEST:



Tony L. Stafford, Secretary
Board of Directors
Camrosa Water District

Debt Management Policy

Adopted August 11, 2016

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Debt Management Policy

Policy Statement

This policy documents the goals of the Camrosa Water District (District) for the use of debt instruments and provides guidelines for the use of debt for financing District water, sewer, and recycled water infrastructure and project needs. The District's overriding goal in issuing debt is to respond to and provide for its infrastructure, capital project, and other financing needs 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.

The District will pay for all infrastructure, projects, and other financing needs from a combination of current revenues, available reserves, and prudently issued debt. The District believes that debt can provide an equitable means of financing projects for its customers and provide access to new capital. Debt will be used to meet financing needs (i) if it meets the goals of equitable treatment of all customers, both current and future; (ii) if it is the most cost-effective means available; (iii) if it is fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (iv) if there are other important policy reasons therefor. The District will not issue debt without the approval of the Board of Directors (Board).

Purpose and Use of Debt

The District will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term improvements and thus ensure that existing and future users contribute equitably. Long-term improvements include the acquisition of land, facilities, infrastructure, and supplies of water; and enhancements or enlargements to existing capacity and facilities for obtaining, importing, transporting, and delivering additional quantities of water. These improvements are typically included in the District's Operating and Capital Budget and capital plans as adopted by the Board of Directors. Bond proceeds can be issued to fund the planning, design, land acquisition, construction, equipment, attached fixtures and moveable pieces of equipment, or other costs as permitted by law.

Purpose of Policy

The purpose of this debt management policy is to:

- Establish parameters for issuing debt
- Provide guidance to decision makers:

- With respect to all options available to finance infrastructure, capital projects, and other financing needs
 - So that the most prudent, equitable and cost-effective method of financing can be chosen
- Document the objectives to be achieved both prior to issuance and subsequent to issuance
- Promote objectivity in the decision-making process
- 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:

- The state law which authorizes the issuance of the debt
- The federal and state laws which govern eligibility of the debt for tax-exempt status
- The federal and state laws which govern the issuance of taxable debt
- The federal and state laws which govern disclosure, sale, and trading of the debt both before and subsequent to issuance

Types of Debt

Revenues Bonds, Notes, Certificates of Participation, special tax or special assessment bonds, capital leases, commercial paper, bank loans, direct placements, and lease-purchase financings will be treated as debt and subject to these same policies.

General Provisions

The District will provide for a periodic review of its financial performance and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting, and rate setting processes. Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget. The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers, and investors, to ensure future capital market access at the lowest possible interest rates.

The District's Debt Management Policy, the Reserve Policy, and the Investment Policy are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such, the following principles outline the District's approach to debt management:

- The District will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues

are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

- The District will not issue debt to cover operating needs, unless specifically approved by the Board.
- Debt issuance for a capital project will not be considered unless such project has been incorporated into the District's adopted Operating and Capital Budget or as otherwise approved by the Board.
- Each proposal to issue debt will be presented to the Finance Ad-Hoc Committee prior to presenting to the Board for approval. At that time, an analysis will be provided demonstrating conformity to this Policy. This analysis will address the purpose for which the debt is issued and the proposed debt structure.

Conditions for Debt Issuance

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

In issuing debt, the District's objectives will be to:

- Achieve the lowest cost of capital
- Ensure ratepayer equity
- Maintain a credit rating strategy, and access to credit enhancement
- Preserve financial flexibility

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 rates in the near and medium term, and to minimize rate volatility. The District shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life. Capital projects financed through debt issuance will not be financed for longer than the expected useful life of the project.

Debt Capacity

There is no specific provision within the California Government Code that limits the amount of debt that may be issued by the District. The District's future borrowing capability is limited by the debt coverage ratio and additional debt limitations required by the existing bond covenants.

Financing Criteria

Each debt issuance should be evaluated on an individual basis within the context of the District's overall financing objectives and current market conditions. The District will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

Credit Enhancement – The District will consider the use of credit enhancement on a case-by-case basis. Only when a clearly apparent savings can be realized shall credit enhancement be utilized.

Cash-Funded Reserve vs. Surety – If the issuance of debt requires a cash-funded debt service reserve fund, the District may purchase a surety policy or replace an existing cash-funded debt service reserve fund when deemed prudent and advantageous. The District may permit the use of guaranteed investment agreements for the investment of reserve funds pledged to the repayment of any of its debt when it is approved by the Board.

Call Provisions – In general, the District's securities should include optional call provisions. The District will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option.

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 this policy.

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

Variable-Rate Debt – Variable-rate debt products are rolling series of short-term investments that are resold periodically and are therefore priced at the short end of the yield curve at low interest rates. If an issuer accepts the risks inherent in variable interest rates, the issuer can take advantage of some of the lowest rates available on the market. Variable-rate debt may be appropriate for the District's portfolio, especially in the environment where increased interest earnings on invested funds offset the increased cost of variable-rate debt. Variable-rate debt products include variable-rate demand obligations, commercial paper, and auction rate securities. The District may consider the use of variable-rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable-rate debt, the District will analyze the risks associated with the variable-rate debt products, including derivative products.

Use of Variable-Rate Debt – The District may consider the use of variable-rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In

determining whether or not to use variable-rate debt, the District will analyze, among other things, the risk associated with the variable-rate debt and the impact on the District's overall portfolio. Before issuing variable-rate debt, the District will analyze its cash position; the District will not issue variable-rate debt in an amount that exceeds 115 percent of its unrestricted cash position at the time of issuance.

Investment of Bonds Proceeds – Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction. The District will seek to maximize investment earnings within the investment parameters set forth in the respective debt financing documentation. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision, specifically addressing the arbitrage/rebate position and evaluating alternative debt structures and refunding savings on a “net” debt service basis, where appropriate.

Refinancing Outstanding Debt

The Manager of Finance shall have the responsibility to evaluate potential refunding opportunities. The District will consider the following issues when analyzing potential refinancing opportunities:

Debt Service Savings – The District shall establish a target savings level equal to three percent or higher of the par refunded on a net present value (NPV) basis (after payment of all costs associated with the issuance). This figure will serve only as a guideline and the District may determine that a different savings target is appropriate; the District shall evaluate each refunding opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

- Remaining time to maturity
- Size of the issue
- Current interest rate environment
- Annual cash flow savings
- The value of the call option
- Revision of restrictive or onerous covenants
- Other factors approved by the District

Restructuring – The District may seek to refinance a bond issue on a non-economic basis, in order to restructure debt, mitigate irregular debt service payments, accommodate revenue shortfalls, achieve a proper matching of debt service with revenues, release reserve funds, or comply with and/or eliminate rate/bond covenants.

Term/Final Maturity – The District may consider the extension of the final maturity of the refunding bonds in order to achieve a necessary 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 bonds. The remaining useful life of the assets and the concept of intergenerational equity will guide these decisions.

Outstanding Debt Limitations

Prior to issuance of new debt, the District shall consider and review the latest credit-rating reports and guidelines to ensure the District's credit ratings and financial flexibility remain at levels consistent with the most highly rated comparable public agencies.

Selection of Financing Team Members

The District shall procure professional services as required to execute financing transactions and provide advice on non-transaction-related work. Professional services include Consultants (Financial Advisor, Legal Counsel – Bond, Disclosure and Tax); Service Providers (Trustee, Paying Agent, Printer, Letter of Credit, Verification Agent); and an Underwriting Team (Senior Manager, Co-Manager).

The District shall select its primary financing team members/consultant(s) by competitive process through a Request for Proposals (RFP) or a Request for Qualifications (RFQ).

The District shall establish selection criteria for selecting its financing team members. The criteria may include, but are not limited to:

- Professional excellence
- Demonstrated competence
- Specialized experience performing similar services for California agencies
- Education and experience of key personnel to be assigned
- Geographic proximity
- Staff capability
- Ability to meet schedules
- Nature and quality of similar completed work
- Reliability and continuity of the firm or individual
- Other considerations deemed by the District to be relevant and necessary to the performance of advisory services

Market Communication, Debt Administration and Reporting Requirements

Responsibilities – For purposes of this policy, the General Manager delegates responsibility of market communication, debt administration, and reporting requirements to the Manager of Finance, or appropriate position determined by the General Manager.

Rating Agencies – The Manager of Finance shall be responsible for maintaining the District's relationships with Standard & Poor's Ratings Services, Fitch Ratings, and Moody's Investors Service, as appropriate. The District shall, from time to time, deal with one, two, or all of these agencies as circumstances dictate. In addition to general communication, the Manager of Finance shall (1) meet, at least biennially, either in person or via phone, with credit analysts, and (2) offer, prior to each competitive or negotiated sale, conference calls or meeting(s) with rating analysts in connection with the planned sale.

Observance of Debt Covenants – The Manager of Finance will periodically ensure that the District is in compliance with all legal covenants for each debt issue.

Continuing Disclosure – The Manager of Finance will, for all debt issued, comply with Rule 15c3-12(b)(5) by required filing as covenanted in each debt issue's Continuing Disclosure Agreement. The Manager of Finance will maintain a calendar with the reporting deadlines and procedures for dissemination of annual reports and notices.

Record Keeping – A copy of all debt-related records shall be retained at the District's offices. At minimum these records shall include all official statements, bid documents, bond documents/transcripts, resolutions, trustee statements, leases, and title reports for each financing (to the extent available). To the extent possible, the District shall retain an electronic copy of each document, preferably in PDF or CD-ROM format.

Arbitrage Rebate – The District will comply with the administratively adopted policies and procedures regarding tax-exempt financings and tax-exempt finance property, as well as the tax and arbitrage certifications associated with each issue.

Policy Review – This policy should be reviewed on a biennial basis and adopted by the Board.

GLOSSARY OF TERMS

Advance Refunding A procedure where outstanding bonds are refinanced by the proceeds of a new bond issue prior to the date on which the outstanding bonds become due or are callable. Generally, either the entire outstanding issue is refunded (full refunding) or only the callable bonds are refunded (partial refunding).

Amortization The planned reduction of a debt obligation according to a stated maturity or redemption schedule.

Arbitrage The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Balloon Maturity A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

Basis Points The measure of the yield to maturity of an investment calculated to four decimal places. A basis point is one one-hundredth of one percent (.01 percent).

Bond Anticipation Notes (BANS) Notes issued by the government unit, usually for capital projects, which are paid from the proceeds of the issuance of long term bonds.

Bullet Maturity A maturity for which there are no sinking-funds payments prior to the stated maturity date.

Call Provisions The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

Capitalized Interest A portion of the proceeds of an issue set aside to pay interest on the securities for a specific period of time. Interest is commonly capitalized for the construction period of the project.

Certificates of Participation (COP) A bond from an issue, which is secured by lease payments made by the party leasing the facilities, financed by the issued. Typically COPs are used to finance the construction of facilities (e.g., infrastructure or buildings) used by a municipal agency, which leases the facilities from a financing authority. Often the agency is legally obligated to appropriate moneys from its general tax revenues to make lease payments.

Competitive Sale A sale of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities in contrast to a negotiated sale.

Continuing Disclosure The principle that accurate and complete information material to the transaction, which potential investors would be likely to consider material in making investment decisions with respect to the securities, be made available on an ongoing basis.

Credit Enhancement Credit support purchased by the issuer to raise the credit rating of the issued. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

Debt Service Reserve Fund The fund in which moneys are placed, which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

Discount Bonds Bonds which are priced for sale at a discount from their face or par value.

Derivative A financial product whose value is derived from some underlying asset value.

Escrow A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

Gross Spread The fees that underwriters receive for selling a public debt offering. The gross spread is equal to the difference between the price of a security paid by the underwriter and the offering price charged to the public.

The gross spread comprises three components:

Takedown: Normally the largest component of the spread, similar to a commission, which represents the income derived from the sale of securities. If bonds are sold by a member of the syndicate, the seller is entitled to the full takedown (also called the “total takedown”).

Management Fee: The amount paid to the senior manager and/or co-managers for handling the affairs of the syndicate.

Expenses: The costs of operating the syndicate for which the senior manager may be reimbursed.

Lease-Purchase A financing lease which may be sold publicly to finance capital equipment, real property acquisition or construction. The lease may be resold as certificates of participation or lease revenue bonds.

Letters of Credit A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

Management Fee The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

Negotiated Sale A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Original Issue Discount The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

Overlapping Debt That portion of the debt of other governmental units for which residents of a particular municipality are responsible.

Pay-As-You-Go An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

Present Value The current value of a future cash flow.

Private Placement The original placement of an issue with one or more investors, as opposed to being publicly offered or sold.

Rebate A requirement imposed by the Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to its profit earned from the investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code, together with all income earned on the accumulated profit pending payment.

Special Assessments Fees imposed against properties that have received a special benefit by the construction of public improvements, such as water, sewer, and irrigation.

Underwriter A dealer that purchases new issues of municipal securities from the issuer and resells them to investors.

Underwriter's Discount The difference between the price at which bonds are bought by the underwriter from the issuer and the price at which they are reoffered to investors.

Variable-Rate Debt An interest rate on a security that changes at intervals according to an index, formula or other standard of measurement, as stated in the bond contract.