RESOLUTION NO. 22-810

A RESOLUTION OF THE GOLETA WEST SANITARY DISTRICT ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, the Goleta West Sanitary District (the "District") is a sanitary district duly organized and validly existing under the laws of the State of California; and

WHEREAS, in compliance with Government Code section 8855, the District desires to adopt the Debt Management Policy attached as Exhibit A to provide guidelines for issuance of debt and management of outstanding debt.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE GOLETA WEST SANITARY DISTRICT DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:

SECTION 1. That the District adopt the Debt Management Policy attached as Exhibit A, which is hereby approved.

SECTION 2. This resolution shall take effect immediately upon adoption.

PASSED, ADOPTED AND APPROVED at a special meeting of the Board of Directors of the Goleta West Sanitary District held on August 8, 2022.

I HEREBY CERTIFY that the foregoing Resolution was adopted by the Board of Directors of the Goleta West Sanitary District at a Board meeting thereof held on the 8th day of August 2022, by the following vote of the members thereof:

AYES: Turenchalk, Bearman, Meyer, Geyer, Lewis
NOES:
ABSTAINED:
ABSENT:

Brian McCarthy, Clerk - Secretary
(SEAL)

APPROVED

L. D. Meyer

Larry Meyer, Board President

DEBT MANAGEMENT POLICY

This Debt Management Policy (the "Debt Policy") of the Goleta West Sanitary District (the "District") was approved by its Board of Directors (the "Board") on August 8, 2022. The Debt Policy may be amended by the Board of Directors as it deems appropriate from time to time in the prudent management of its debt. Any approval of debt by the District Board that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the District.

A debt management policy sets forth the guidelines for the issuance of debt and the management of outstanding debt. The Policy establishes parameters which recognize the District's specific capital requirements, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. Specifically, the Policy is intended to assist the District in the following:

- Maintaining the District's sound financial position
- Evaluating debt issuance options
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses
- Ensure that all debt is structured in order to protect both current and future taxpayers, customers and constituents of the District.
- Maintaining appropriate capital infrastructure to meet the District's present and future needs
- Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budgets, as applicable.
- Protecting and enhancing the District's credit rating; and
- Ensuring an effective system of internal controls and disseminating accurate and timely financial information.

2. Policies

The Board Treasurer and Board of Directors are the designated administrator of the Policy. The General Manager shall have the day-to-day responsibility and authority for structuring, implementing, and managing the District's debt and finance program.

A. Purposes For Which Debt May Be Issued

<u>Long-Term Debt</u>. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.

- When the project to be financed will provide benefit to constituents over multiple years.

- When total debt does not constitute an unreasonable burden to the District and its taxpayers and its customers.

- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The District may contemplate the following debt structure considerations:

Final Maturity - The final maturity of the debt should not exceed, and preferably be less than, the remaining useful life of the assets being financed. To comply with Federal tax regulations, the average life of a financing shall not exceed 120% of the average life of the assets being financed.

Debt Service - Payments should be structured with level debt service payments over the life of the debt. The District may also structure the amortization of principal to wrap around existing obligations or backloaded to achieve other financial planning goals. In general, deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project (dedicated) revenues are sufficient to pay debt service.

Method of Sale – Working in conjunction with its financial advisor, the District will select a method of sale: competitive sale, negotiated sale or private placement. The District will determine the most appropriate method taking into account size/structure/credit consideration, current capital market conditions, and other financial, transaction-specific and policy considerations.

Lien Structure - Senior and subordinate liens will be utilized in a manner that will maximize the most critical constraint as determined by the Board, either cost or capacity, thus allowing for the most beneficial leverage of revenues.

Capitalized Interest - The District may elect to fund capitalized interest in connection with the construction of certain projects when revenues from the project will not be available until completion.

Reserve Funds – A debt service reserve fund (DSR) may be required for rating or marketing reasons. If available, a DSR can be funded with a surety policy from 1) the proceeds of a debt issue or 2) the reserves of the District. A cash reserve fund will be invested pursuant to the investment restrictions associated with the respective financing documents. For each debt issue, staff will evaluate net borrowing cost of the financing with a DSR or surety policy, taking into consideration the investment of the DSR over the life of the issue.

Redemption Provisions – The District shall seek to structure each issue with an optional redemption or call provision, unless the final maturity is less than 10 years. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.

Ratings - The District's objective is to maintain or improve its credit ratings as a way of reducing financing costs. The General Manager shall be responsible for implementing and managing the District's credit rating agencies relations program. This effort shall include providing the rating agencies with the District's annual budget, financial statements, and other information they may request. Staff should coordinate periodic meetings with the rating agencies and communicate with them prior to each debt issuance.

Credit Enhancement – Bond insurance will be used when it provides an economic advantage to a particular debt maturity or the entire issue. The District will evaluate the availability and cost/benefit of credit enhanced debt versus unenhanced debt prior to issuing any debt.

Variable Rate Debt – The District shall seek to utilize long-term fixed rate bonds. However, the District may consider issuing variable rate bonds. In managing its variable rate debt, staff will regularly monitor the market for credit enhancement, particularly liquidity facilities provided by credit enhancement providers and alternative variable rate products and the use of alternative variable rate instruments that do not require credit enhancement. The District should seek to diversify its exposure to banks when selecting institutions to provide liquidity or credit enhancement for variable rate debt.

Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

B. Types of Debt

For purposes of this Debt Policy, "debt" shall be interpreted broadly to mean loans, bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such terms in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

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

- general obligation bonds
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions
- state or federal loans
- loans and lines of credit with banks and other long-term financial institutions
- refunding of any of the prior listed obligations or other long-term prior financial commitments

The District 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.

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.

C. Relationship of Debt to Capital Improvement Program and Budget

The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and the Wastewater Master Plan.

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 integrate its debt issuances with the goals of its budget (and capital improvement costs) by timing the issuance of debt to ensure that proceeds are available when needed in furtherance of the District's public purposes.

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 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 Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect taxpayers, ratepayers, customers, and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

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 taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the District.

Any refinancing of debt for the purpose of realizing debt service savings should seek to achieve a minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount. The 3.0% threshold should serve as a guideline. The District may refinance outstanding bonds in order to meet certain policy/financial objectives, such as: removing restrictive covenants, reshaping debt profile or budgetary/cash flow relief, unique financial circumstances or historically low interest rates, and limit term to maturity.

E. Internal Control Procedures

Use of Financial Advisor – In accord with the Government Finance Officers Association (GFOA) recommendation, the District should retain an independent registered municipal advisor (financial advisor) when it is contemplating the issuance of bonds (during the initial planning phase). The financial advisor shall assist the District in evaluating all financing options, assembling the other members of the financing team and facilitate the bond issuance process. The financial advisor shall provide objective advice and analysis, maintain confidentiality of District financial plans, and fully disclose any potential conflicts of interest.

The District will comply with all financing covenants to maintain the validity of the issuance of debt, including, but not limited to tax-exemption, arbitrage rebate compliance, insurance provisions, reporting and monitoring requirements. The District will ensure compliance with all continuing disclosure requirements as part of its ongoing debt program. Any instance of noncompliance will be reported to the Board of Directors.

The District will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,

- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and

- the District's investment policies as they relate to the investment of bond proceeds.

It is the policy of the District to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever required by the financing agreements for a particular transaction, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds.

The District shall seek to borrow tax-exempt proceeds that can be reasonably spent within the IRS spending requirement, approximately 85% within 3 years.

The District will submit a requisition only after obtaining the signature of the General Manager. In those cases when the proceeds of debt are not held by a third-party trustee, the person performing the function of chief financial officer of the District shall retain records of all expenditures of proceeds through the final payment date for the debt.

The Board acknowledges that changes in the capital markets and other unexpected events may, from time to time, create situations and opportunities that are not contemplated by this Policy and may require adjustments or exceptions to the guidelines of the Policy. In such circumstances, the ability of the District to be flexible is important; however, any authorization granted by the Board to proceed with a financing or financial product not expressly permitted by the Policy must be accompanied by an acknowledgement of the Board that the actions to be taken by the District are not specifically authorized by the Policy in force at that time and separate approval by the Board to an interim or immediate adjustment to the Policy. The Policy shall be initially adopted by the Board and reviewed annually. Future updates to the Policy require the approval by the Board.