

BURNEY WATER DISTRICT SB 1029-COMPLIANT DEBT MANAGEMENT POLICY

PURPOSE

To establish a policy governing long-term financial obligations that bears Burney Water District's name.

BACKGROUND

Senate Bill (SB) 1029 imposed requirement into Government Code 8855(i) requiring agencies to adopt a debt management policy (DMP) for managing long-term debt. An adopted DMP is a requirement to obtain loan financing through the Clean Water and Safe Drinking Water State Revolving Funds (CWSRF and SDWSRF). Generally, the policy requires the following elements:

1. Purpose and use for debt.
2. Type of debt that may be issued.
3. Relationship of debt and integration with the issuer's capital improvement program or budget, if applicable.
4. Policy goals related to the issuer's planning goals and objectives.
5. Internal control procedures to ensure proceeds of the debt will be directed to the intended use.

Burney Water District recognizes that it may need to enter into long-term financial obligations to acquire or construct capital assets to meet the service needs of the District, and that these financial obligations must be managed properly. The adoption of long-term financial strategy and policy is important to ensure sound financial management practices. The policy is general and therefore allows for exceptions in extraordinary conditions. For the purposes of this policy, long-term financial obligations are those that exceed one fiscal year, and include certificates of participation, bonds, or similar instruments (including, but not limited to, bank loans and letters of credit) that require the acquisition of capital from the financial markets and are supported by the District's municipal credit rating(s). This policy does not apply to leases in which payments are not "securized."

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1. PURPOSE AND USE

It is the policy of Burney Water District that the following guidelines and restrictions will be applied during the debt issuance process and the management of the District's debt portfolio:

- 1.1 Burney Water District will only issue long-term debt that is specifically authorized by resolution.
- 1.2 Burney Water District will describe the debt, reference applicable authorizing resolution, and indicate the purpose for which it will be used.
- 1.3 Prior to issuance of long-term debt, Burney Water District will:
 - 1.3.1 Assess its ability to repay the obligation,
 - 1.3.2 Identify the funding source of payment,
 - 1.3.3 Evaluate the impact of the ongoing obligation on the current and future budgets,
 - 1.3.4 Asses the operational and maintenance requirements of the project to be financed,
 - 1.3.5 Consider the impact on the District's credit rating.
- 1.4 The term of the long-term obligation will not exceed the useful life or the average life of the project or projects being financed.
- 1.5 Long-term financial obligations will not be used to finance current operations or for recurring needs.
- 1.6 Burney Water District may consider long-term financial obligations for the purpose of funding capital improvements to its utility infrastructure. Specific improvement projects should be first identified in,
 - 1.6.1 A utility master plan, or
 - 1.6.2 Project feasibility study, or
 - 1.6.3 District capital improvement plan or program, or
 - 1.6.4 Utility rate study.

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2. TYPE OF DEBT

Burney Water District may consider conventional loans from private sources and State and Federal funding agencies. In addition, the District may consider assessment district and community facilities district financing to provide for public improvements, whether initiated by petition of the property owners or Burney Water District. Regardless of the structure of long-term debt, the District will adhere to the following practices:

- 2.1 The lowest overall financing cost to Burney Water District, and its ratepayers, will be sought in all cases.
- 2.2 Fixed interest rates and loan terms will be sought in all cases.
- 2.3 Loan terms shall coincide with the estimated useful life of the asset being financed, or the maximum term allowed under applicable statute.
- 2.4 Debt service amortization will be provided on a level basis.

3. DEBT INTEGRATION WITH DISTRICT FINANCES

Burney Water District shall evaluate all financial impacts to the District fund in which the debt is being obligated. Use of master planning, capital improvement programs, and/or feasibility studies shall be utilized to evaluate and determine the scope of capital improvement projects requiring long-term financing. District staff, or consultants, shall evaluate any and all grant opportunities for specific projects before pursuing long-term debt financing.

A financial evaluation of the overall impacted District fund shall be performed. This can be performed on a project-specific basis or as part of the District's five-year utility rate evaluation. Burney Water District will strive to maintain the lowest overall utility rates to its rate payers and accomplish the following management practices within each utility fund:

- Maintain 25% of annual expenditures in an Operating Reserve.
- Maintain separate debt service reserves as required by specific funding sources, typically equivalent to one annual principal and interest payment.
- Maintain a short-lived asset reserve for replacing assets with useful lives between five and twenty years. The amount collected each year is determined by dividing the replacement cost by the expected time in which the asset requires replacement.
- Maintain a capital asset replacement reserve.

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Long-term debt obligations are additive to the reserves described above. Utility user rates are determined based on the revenue needed to pay for budgeted expenses, fund required reserves, and meet long-term debt obligations.

4. POLICY GOALS

Burney Water District will only pursue long-term debt if the need is consistent with capital project improvements associated with an approved master plan, capital improvement program, or project-specific feasibility study. The need for capital improvements can be dictated by:

- Regulatory mandate,
- Correction of a non-compliant deficiency, or
- Replacement of assets that have reached or exceeded their useful lives.

5. INTERNAL CONTROLS

Burney Water District's District Manager has internal control over payment of long-term debt. Like all public agencies, the District hires an outside accounting firm each year to review and provide audited financial statements for the District's finances. Audited financial statements are posted on the District's website.