

**RESOLUTION 17-11**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE TWENTYNINE PALMS WATER DISTRICT  
ADOPTING A DEBT MANAGEMENT POLICY**

**WHEREAS**, Twentynine Palms Water District (the "District") maintains prudent financial practices to assure the ongoing financial health of the District; and


**WHEREAS**, the Board of Directors has determined that it would be proper in the management of its financial affairs to establish policies of the District with respect to debt management; and

**WHEREAS**, the Board of Directors has caused to be prepared such a policy with the assistance of staff which is attached hereto as Exhibit A.

**NOW, THREFORE, BE IT RESOLVED** the Board of Directors hereby adopts the Debt Management Policy, a copy of which is on file at the offices of the District and is available for inspection by the public.

**PASSED, APPROVED AND ADOPTED** at the regular meeting of the Board of Directors of the Twentynine Palms Water District held this 28<sup>th</sup> day of June 2017, by the following vote:

Ayes:	Directors Coghill, Giannini, Horn, Shinaver, and Moore
Noes:	None
Abstain:	None
Absent:	None

  
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Kerron E. Moore, President  
Board of Directors

Attest:  
  
\_\_\_\_\_  
Ray Kolisz, Board Secretary  
Twentynine Palms Water District



# **TWENTYNINE PALMS WATER DISTRICT DEBT MANAGEMENT POLICY**

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## **Section 1. Purpose of the Policy**

This policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of this policy that – 1) the District obtain financing when necessary, 2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, 3) the most favorable interest rate and issuance costs be obtained, and 4) when appropriate, future financial flexibility be maintained.

## **Section 2. Policy**

The issuance of long-term debt is a valuable funding resource for the District. Used appropriately and prudently, long-term debt can minimize the District’s water system charges and rates over time.

To minimize dependency on debt financing for capital projects, annual renewal and replacement capital projects will be adequately funded from rates. Funding levels for capital investments will be sufficient to meet capital improvement projections needed as outlined in the current Asset Management Plans and/or Water System Master Plan. Long-term debt will be considered only for large capital improvement projects or greater than normal capital plans. The District will maintain water rates to at least meet, and potentially exceed, the minimum and target Debt Service Coverage (DSC) requirements as imposed by bond covenants. The District will not issue long-term debt to support operating costs.

- A. Use of Long-Term Debt as a Funding Mechanism – Use of long-term debt will be minimized and, unless otherwise directed by the District Board of Directors, will be utilized only for projects described in the District’s approved capital improvement program. The District may consider the use of long-term debt financing when it appears that a capital project, or other expenditures as deemed appropriate by the Board, is of such a magnitude that it will negatively impact the District’s rates in the short-term. The benefit of long-term debt financing is that it will spread the costs of the capital asset over a longer period of time and will, therefore, approximate the useful life of the asset, and over time, charge those customers that benefit from that asset more equitably.
- B. Types of Long-Term Debt – The District may utilize any type of debt available to it; provided, that, the District will strive to utilize the type of debt that has the lowest costs, while not imposing any burdensome covenants or reporting requirements.
- C. Legal Covenants – The District will manage its finances to meet all bond covenants associated with the long-term debt. Bond covenants are legal obligations of the District.
- D. Debt Service Coverage Covenants – Long-term debt issuances typically contain legal covenants regarding DSC. A DSC ratio is an important financial measure of the District’s ability to repay the outstanding debt obligation, and is reviewed for

adequacy by banks and rating agencies. Generically, the DSC ratio is the District's net operating income divided by the total annual debt service payment. For financial planning purposes, the targeted annual DSC ratio will be greater than or equal to 1.85 on all outstanding debt that carries such a covenant.

- E. Reporting Standards – The District will fully adhere to all applicable Government Accounting Standards Board (GASB) requirements and recognized best practices for the accounting treatment and disclosure of debt obligation transactions in its audited financial statements and other relevant publications.
- F. Revenue-Bonded Debt Capacity – The issuances of debt are supported by the revenues of the District. The ability of the District to fund and support revenue bonded debt will financially establish a debt level and capacity for revenue-bonded debt.

### **Section 3. Conditions for Debt Issuance**

When debt issuance is determined necessary, the District will assess the market conditions and timing for debt issuance to include issuing debt – 1) in times of favorable market conditions, 2) when Bond ratings would qualify District issuances to be investment grade, and 3) when revenues are sufficient to adequately cover expected debt service and issuance costs.

Bond credit enhancements will be considered when necessary for market acceptance and when costs are favorable to the District.

### **Section 4. Conditions for Debt Refinancing**

Debt refinancing (refunding) is an important debt management tool for the District. There are three key concepts that must be taken into consideration when evaluating a debt for refunding:

1. Financial and Policy Objectives
2. Financial Savings/Results of Financing
3. Bond Structure and Escrow Efficiency

Financial and Policy Objectives – The District may undertake a refinancing for a number of financial and/or policy objectives, including to achieve debt service savings, eliminate restrictive debt/legal covenants, restructure the stream of debt service payments, or to achieve other policy objectives. Although in most circumstances the District may undertake a refunding to obtain economic savings, it may refund an issue to restructure its debt portfolio in order to obtain budgetary/cash flow relief or to address exposure to other costs/liabilities and to extend the maturity.

Financial Savings/Results of Financing - The financial framework regarding the evaluation of refunding opportunities is to be developed and evaluated by the District Treasurer, typically to include the efforts of outside financial advisors. It is important to note that federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue. As such, the District must take greater care (i.e., require a higher savings threshold) when evaluating an advance refunding opportunity. In certain circumstances, lower savings thresholds may be justified. For example, when an advance refunding is being conducted primarily for policy reasons (other than

economic savings), interest rates are at historically low levels or the time remaining to maturity is limited, and as such, future opportunities to achieve greater savings are not likely to occur.

**Bond Structure and Escrow Efficiency** – The District’s debt management practices should anticipate the potential for future refundings. When debt is issued, careful attention should be paid to the bond structure to address features that may affect flexibility in the future. To that end, upon debt issuance the District shall consider: optional redemption provisions, bond coupon characteristics giving up call rights for certain maturities in exchange for a lower interest rate on the bonds, call provisions that permit the redemption of bonds in any order of maturity or on any date, call provisions that permit the issuer to call bonds at the earliest date without incurring a significant interest-rate penalty, and coupons on callable bonds priced as close to par as possible at the time of original issue.

**Escrow Efficiency** - The lower the cost of the escrow the more efficient the escrow. Also, in order to be efficient, escrow securities need to mature or pay interest when debt service payments of the refunded escrow are due.

**Current vs. Advance Refunding** - There are two types of refundings for tax-exempt debt financing, as defined by Federal Tax laws; a current refunding in which a refunding takes place (i.e., refunding bonds are sold) within 90 days of the optional call date, and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date. Federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue.

## **Section 5. Interest Rate Swaps**

The incurring or carrying of variable-rate debt obligations by the District involves a variety of interest rate payments and other risks that interest rate swaps are available to offset, hedge, or reduce. It is the policy of the District to utilize such interest rate swaps to better manage its debt portfolio. The District will consider executing an interest rate swap transaction if it expects the swap transaction will result in any of the following:

- A. Reduce exposure to changes in interest rates on a financial transaction;
- B. Result in a significantly lower net cost of borrowing with respect to the District’s debt consistent with an established target; or
- C. Manage variable interest rate exposure consistent with prudent debt practices and guidelines as approved by the Board.

### **Savings Target**

Interest rate swaps will require a significant financial benefit or savings versus traditional fixed-rate debt. For an interest rate swap intended to produce the effect of a synthetic fixed rate transaction, the swap transaction must generate 5% or greater net present value savings compared to standard fixed-rate bonds which have the same optional redemption features.

### **Restrictions**

The District will not enter into any swap transaction

- a) for speculative purposes.
- b) if the swap presents an extraordinary risk to the District's liquidity to terminate the agreement due to unforeseen events.
- c) if there is insufficient price transparency to allow for fair market valuation.

### **Provider Requirements**

The transaction provider will have a credit rating of AA (or equivalent) or better from at least two nationally recognized credit rating agencies (at the time of agreement execution). The transaction provider will have a demonstrated record of successfully executing derivative transactions and have a minimum capitalization of \$2 billion.

### **Use of Independent Advisor**

The District will use a professional advisor or designated swap representative ("Swap Advisor") to assist in the assessment, structuring, and pricing of proposed or existing interest rate swaps. The Swap Advisor will be a firm which:

- i. is a Municipal Advisor registered with the Securities and Exchange Commission;
- ii. has sufficient knowledge to evaluate the swap transaction and risks;
- iii. is not subject to a statutory disqualification;
- iv. is independent of the swap dealer or major swap participant;
- v. undertakes a duty to act in the best interests of the District;
- vi. provides appropriate and timely disclosures to the District; and
- vii. evaluates fair pricing and the appropriateness of the swap.

### **Section 6. Debt Management**

The District's General Manager will oversee the bond issuance process with assistance from the District's Contract CPA and any financial advisors deemed necessary. The General Manager will insure debt proceeds are expended for allowable purposes only. The District's Contract CPA will review all debt proceeds expenditures and another form of internal control. The District's General Manager will ensure compliance with continuing disclosure and other post issuance requirements. The District's CPA will review all disclosures for compliance as well.

### **Section 7. Authority**

The General Manager is responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

### **Section 8. Policy Review**

This Policy will be reviewed at least biennially.