

# LAKE SHASTINA COMMUNITY SERVICES DISTRICT

## DEBT MANAGEMENT POLICY

This Debt Management Policy (the “Debt Policy”) of the Lake Shastina Community Services District (the “District”) was approved by the Board of Directors of the District (the “Board”) on October 20<sup>th</sup>, 2021. The Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt of the District. This Debt Policy shall also apply to any improvement districts formed by the District.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the District and is intended to comply with Government Code Section 8855, effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the District's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the District.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the District's effort to allocate limited resources to provide the highest quality of service to the public. The District understands that poor debt management can have ripple effects that hurt other areas of the District. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the District for its residents and businesses.

### 1. FINDINGS

Unless waived by the District, this Debt Policy shall govern all debt undertaken by the District. The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives, and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

## 2. POLICIES

### A. Purposes for Which Debt May Be Issued

The District will consider the use of debt financing for capital improvement projects (“CIP”) primarily when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this section’s focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below.

- i. Long-Term Debt. To the extent permitted by law, long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the District.
  - (a) Long-term debt financings are appropriate when the following conditions exist:
    - When the project to be financed will provide benefit to constituents over multiple years.
    - 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 use long-term debt financings subject to the following conditions:
    - The project to be financed has been or will be approved by the Board.
    - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not cause the District to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
    - The District estimates that sufficient income or revenues will be available to service the debt through its maturity.
    - The District determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
    - The District considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources.

- (d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve District objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) or negative savings will be considered on a case-by-case basis and are subject to Board approval.

- ii. Short-Term Debt. To the extent permitted by law, short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN).

To the extent permitted by law, other types of short-term borrowings, such as commercial paper, and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the Board determines that extraordinary circumstances exist, must not exceed seven (7) years.

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**

In order to maximize the financial options available to benefit the public, it is the policy of the District to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds: General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. Examples of projects include but, are not limited to: street improvements, libraries, parks, and public safety facilities. All GO bonds shall be authorized by the requisite number of voters in order to pass.
- Lease-Backed Debt/Certificates of Participation (COP): Issuance of lease-backed debt is a commonly used form of debt that allows a District to finance projects where the debt service is secured via a lease, lease/purchase agreement or installment agreement.

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

To maintain a predictable debt service burden, the District will only issue debt that carries a fixed interest rate.

### **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 capital improvement plan.

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 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 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 in the District's annual operating budget.

It is a policy goal of the District to protect taxpayers, ratepayers 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.

### **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 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;
- any required reporting to be filed with the California Debt and Investment Advisory Commission (CDIAC); and
- the District's investment policies as they relate to the investment of bond proceeds.

The General Manager or designee can recommend future changes to the Debt Management Policy as deemed necessary.