



# Sunset Beach Sanitary District

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## RESOLUTION NO. 22-11-01

### **A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SUNSET BEACH SANITARY DISTRICT APPROVING A DEBT MANAGEMENT POLICY**

**WHEREAS**, the Board of Directors (the “Board”) of the Sunset Beach Sanitary District (the “District”) recognizes that cost-effective access to the capital markets depends on prudent management of the District’s debt program; and

**WHEREAS**, Government Code section 8855(i) requires any issuer of public debt to certify prior to issuing debt that it has adopted local policies addressing the topics set forth in said Code; and

**WHEREAS**, the Board wishes to set parameters for issuing debt, managing the debt portfolio and providing guidance to decision makers; and

**WHEREAS**, the Board finds and determines that adoption of the attached Debt Management Policy (the “Debt Management Policy”) will help ensure that debt is issued and managed prudently in order to maintain sound fiscal policy;

**NOW, THEREFORE, BE IT RESOLVED** that the Board of Directors of the Sunset Beach Sanitary District hereby orders and determines as follows:

**Section 1. Recitals.** The Board hereby specifically finds and declares that each of the recitals set forth above are true and correct.

**Section 2. Approval of the Debt Management Policy.** This Board hereby declares that the proposed Debt Management Policy attached hereto is hereby approved as the Sunset Beach Sanitary District Debt Management Policy to be effective on the date of approval.

**Section 3. Authorization to Manage Debt Issuance Functions.** The President and Secretary are hereby authorized to approve debt issuance on behalf of the District in accordance with the Debt Management Policy.

**Section 4. Effective Date.** This Resolution shall take effect from and after the date of its passage and adoption.

The foregoing resolution was adopted General Meeting of the Board of Directors of the Sunset Beach Sanitary District on the 10th day of November, 2022 by the following vote:

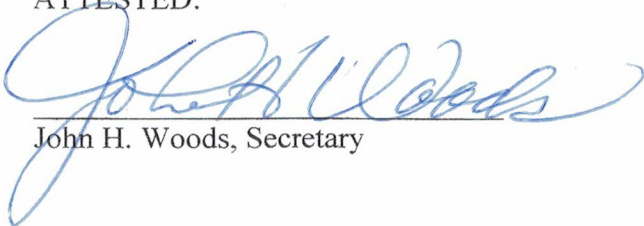
**RESOLUTION NO. 22-11-01**

AYES: 4  
NOES: 0  
ABSTAIN: 0  
ABSENT: 1



Graham Hoad, President

ATTESTED:



John H. Woods, Secretary



# Sunset Beach Sanitary District

## Debt Management Policy

**A. Purpose:** The Sunset Beach Sanitary District (the District) is dedicated to providing access, public input and transparency regarding its meetings, operations and policies. Accordingly, this Debt Management Policy has been developed to provide guidelines for the issuance of bonds and other forms of debt to finance capital improvements, equipment purchases, and property acquisition in compliance with California Government Code Section 8855(i). These guidelines will assist in determining appropriate uses for debt financing, structuring of debt, and meeting the District's financial objectives. While long-term financing is an effective way to spread these costs over time, the District must also consider maintaining and improving credit strength, providing certainty and cash flow flexibility in the annual budgeting process, and prioritizing future capital infrastructure needs.

1. The District will follow sound financial management practices, including:
  - a) Multi-year planning to facilitate timely and equitable changes to rates and charges;
  - b) Maintaining prudent reserves;
  - c) Ensuring access to the credit markets;
  - d) Establishing and maintaining good credit ratings;
  - e) Achieving the lowest aggregate financing costs consistent with an acceptable degree of risk and the recognition of ratepayer affordability.

**B. Authorization and Administration:**

1. The Board of Directors (Board) must approve debt issuance.
2. The Board will use these guidelines to review any long-term debt implications, including costs of borrowing, historical interest rate trends, credit enhancement capacity, opportunities to refund existing debt obligations, and other financial considerations.

**C. Purpose of Debt:**

1. Debt for Long-Term Capital Improvements - Debt financing will only be used to fund long-term capital improvements, including construction, equipment purchases, and property acquisition costs. By spreading the cost of a project over a number of years the financial impact in any given year can be lessened, reducing the impact on the corresponding user charges. Long-term debt also helps ensure that future users, who will benefit from the improvements, will pay a share of its costs.



2. Refunding/Refinancing - If economically beneficial and cost-effective, new debt may be issued in order to refinance existing debt. This can include refunding existing bonds, prepaying loans or other debt instruments, and converting short-term debt such as commercial paper into long-term debt.

3. Emergencies - Debt may be issued in the event of an unforeseen emergency that either impacts the District's ability to continue to operate or results in depletion of the District's reserves below the targets set by the Board in the District's Financial Reserve Policy.

4. No Debt for Operations & Maintenance - Debt will not be used to fund ongoing operational expenses.

**D. Debt Management:**

1. Internal Control Procedures on the Use of Debt - Expenditures of the proceeds from each debt instrument must be expended in the manner detailed in the associated documents. Records must be maintained in accordance with any covenants related to the debt instrument including the following:

- a) Requisitions to the trustee, if one is utilized, from the project construction fund
- b) Trustee records relating to other funds and accounts
- c) Verifiable information showing payments to third parties
- d) An accounting of all proceeds spent on the approved capital project

2. Investment of Debt Proceeds - Any proceeds to be held by the District (or a trustee on the District's behalf) between the time the debt is issued and the time the proceeds are expended on the approved capital project will be invested to maximize safety, liquidity, and return. The District's Investment Policy and the requirements of the debt instrument govern objectives and criteria for investment of proceeds.

3. Credit Ratings - The Board will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising rate payer affordability. Ratings are one reflection of the general fiscal soundness of the District and the capabilities of its management. By maintaining the highest possible credit ratings, the District can issue debt at a lower cost. To enhance creditworthiness, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning.

4. Disclosure Requirements and Investor Relations - The District will comply with disclosure requirements in a timely and comprehensive manner including:

a) Adhering to the “antifraud rules” as promulgated in the Securities Act of 1933, Section 17; Securities and Exchange Act of 1934, Section 10(b); and regulations adopted by the U.S. Security and Exchange Commission’s (SEC) under those Acts, particularly Rule 10b-5.

b) Preparing bond disclosures as stipulated by the SEC’s Rule 15c2-12.

c) Providing information to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system.

d) Maintaining compliance with all accounting and disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB) and the SEC.

e) Reporting to the California Debt and Investment Advisory Commission (CDIAC).

f) Complying with any other reporting required by the issuer of debt.

5. Debt Covenants - General financial reporting and other requirements embodied in debt covenants must be monitored to ensure that the District is in compliance. These may include:

a) Annual appropriation of revenues to meet debt service payments.

b) Timely transfer of debt service payments to the trustee or paying agent.

c) Compliance with insurance requirements.

d) Compliance with rate covenants where applicable.

e) Compliance with all other covenants.

6. Debt Service Coverage Target - The District will set user charge rates with a targeted goal of maintaining an average 5-year projected debt service coverage ratio of 125% on all senior plus subordinate debts. The debt service coverage ratio is calculated as the projected annual net revenues (i.e. revenues remaining after payment of operation and maintenance expenses) divided by the estimated annual debt service. The objective is to maintain a debt service coverage ratio above the legally-required minimum to sustain a high quality credit rating.

7. Debt Service Reserve Fund - A debt service reserve fund will be established only if:

a) it provides an economic or credit advantage that outweighs the cost of funding the reserve; or

b) it is a condition of the debt instrument.

If a debt service reserve fund is required, it must be maintained in accordance with the provisions of the debt instrument and the requirements of the District’s Financial Reserve Policy.

**E. Types of Debt:** If the use of debt is appropriate, the Board will evaluate the types of debt available and make a determination as to the debt instrument best suited for the particular purpose. Unless otherwise specifically authorized by the Board, debt will be issued with fixed interest rates through final maturity. Types of debt that may be issued by the District include:



1. Revenue Bonds - These bonds are typically long-term obligations issued to fund a specific project or purpose. They are backed solely by the future revenues expected to be received by the District in accordance with the agreed-upon bond covenants. Pledged revenues may include user charges, ad valorem taxes, contract revenue, interest, or any other sources of allowable revenue.

2. Clean Water State Revolving Fund (SRF) Loans - The SRF program is a low-interest loan program administered by the California State Water Resources Control Board. Loan proceeds can be used to finance a variety of projects related to water quality, including sewers, treatment plants, water recycling facilities, and stormwater improvements. Board approval is required for each SRF loan.

3. Commercial Paper - Commercial Paper is a short-term, unsecured note that pays a fixed rate of interest for a term ranging from seven to 270 days. It may be used as a source of interim construction financing until it is appropriate to replace it with a long-term bond, usually at or near the end of the construction period. Maturing principal and the interest thereon can be rolled to a subsequent maturity date at the then-prevailing interest rate. Board approval is required to issue Commercial Paper debt.

4. Leases - In certain cases, leases may be considered debt under Government Code Section 8855(i), in particular when the lease may lead to purchase of the asset, the total lease payments approach the value of the asset, or when the lease term approaches the life of the asset. The District will comply with all debt-related requirements for the lease in the event the lease is considered debt under the criteria of Section 8855(i). Board approval is required to enter into such a lease.

5. Other Debt Instruments - The District may consider other available financing mechanisms that satisfy the conditions of this Debt Policy if the costs and structure are the most cost-effective option for the District. This can include other state or federal loans that, from time to time, may make funds available at or below market interest rates for specific types of projects or programs. Board approval is required before incurring any such debt.

**F. Method of Sale:** When issuing bonds, the District will select the method of sale which best fits the type of bond being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

1. Competitive Sale - In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest true interest cost is awarded the sale.

2. Negotiated Sale - In a negotiated sale, the underwriter or underwriting syndicate is selected through a Request for Proposal (RFP) process. The underwriter's fee is negotiated prior to the sale. The interest rate, redemption features and principal amortization are based on current market conditions on the sale date.

3. Private Placement - Private placement bonds are not publicly issued or publicly traded but rather are funded through direct negotiation with one or a select number of private financial institutions. The private financial institution is effectively providing a loan to be repaid over time. In general, private placements do not require many of the disclosure requirements found in public offerings. Private financial institutions typically do not require the bonds to be rated by a credit rating agency.

**G. Criteria for Issuing Debt:** The Board will evaluate the need for issuing debt, taking into consideration the anticipated capital program and the long-term rate projections. The goals of reasonable and stable rates, compliance with the Financial Reserve Policy, and ensuring operations and maintenance are sufficiently funded per the District mission statement will be factored into the decision-making process.

1. Projects will only be financed if the District has the ability to repay the debt and fund appropriate operations and maintenance costs for the asset. The repayment period for any debt must not exceed the anticipated useful life of assets or improvements funded by the debt.

2. If incurring debt is the best option for funding a particular project, the following criteria will be used to determine the optimum debt structure:

a) The term, repayment structure, and interest rate mode must ensure other financial objectives are met, specifically the need to comply with the Financial Reserve Policy and the desire for stable rates.

b) The type of debt instrument must be optimized to achieve the lowest net present value cost.

c) Any conditions for the debt must not place undue burdens or obligations on the District.

d) Prior to issuing debt, the following debt ratios must be calculated for at least the first 5 years of debt service and compared to the indicated goals:

<b>Metric (all District debt)</b>	<b>Targeted Goal</b>
Debt Service Coverage Ratio	$\geq 1.25$
Total debt service as a percent of total operating expenses plus debt service	$\leq 30\%$