Dublin San Ramon Services District
Water, wastewater, recycled water

Policy

Policy No.: P400-17-3	**Type of Policy:** Finance
Policy Title: Capital Financing and Debt Management	
Policy Description: Parameters for issuing and managing debt	
Approval Date: 7/18/2017	**Last Review Date:** 2017
Approval Resolution No.: 38-17	**Next Review Date:** 2021
Rescinded Resolution No.: 16-14	**Rescinded Resolution Date:** 3/18/2014

It is the policy of the Board of Directors of Dublin San Ramon Services District:

PURPOSE

The District will only use debt financing to purchase or build capital assets that cannot be acquired from either current revenues or replacement reserves and to fund capital improvements and additions; it will not be used for operating and maintenance costs.

Lease / Purchase agreements for the purchase of vehicles, equipment and other capital assets shall generally be avoided, particularly if smaller quantities of the asset can be purchased on a pay-as-you-go basis.

CRITERIA

The District will use the following criteria to evaluate pay-as-you-go versus pay-as-you-use or long-term financing in funding capital improvements.

Factors Favoring Pay-As-You-Go Financing

- Adequate funds are available in the replacement and / or expansion funds.
- Adding debt would adversely affect the District's cash flow position or operating flexibility.
- Market conditions are unstable or present difficulties in funding.

Factors Favoring Pay-As-You-Use Financing

- Asset life is equal to or greater than the term of the financing. Asset will be paid for as it is used, hence “pay-as-you-use” financing.

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- Revenues available for debt service are sufficient and reliable so that long-term financings can be sold at favorable interest rates.
- A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
- The project is immediately required to meet District needs and current resources are insufficient or unavailable.

TYPES OF DEBT

The District may use a combination of fixed and variable rate bonds, commercial paper, bank loans, state loans or any other type of debt allowable by law.

Each debt issuance should be evaluated on an individual basis within the framework of the District's long-term financial plan when determining the type of debt to issue.

Debt may be structured so as to pay interest only until project completion. Principal amortization shall be established to ensure full payment of the principal and interest on the debt over no more than 35 years or the life of the asset, whichever is less.

USE OF PROCEEDS

General – Proceeds (including investment income on original sale proceeds) of capital obligations, other than proceeds used to pay costs of issuance, should be spent on capital expenditures. For this purpose, capital expenditures generally mean costs to acquire, construct, or improve assets (i.e. land, buildings, equipment etc.). Capital expenditures include design and planning costs related to the project, and include architectural, engineering, surveying, soil testing, environmental, and other similar costs incurred in the process of acquiring, constructing, improving or replacing the asset. Capital expenditures do not include operating expenses of the Project.

Reinvestment of Proceeds – The District shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds, as well as restrictions on the time period during over which some bond proceeds may be invested. To the extent that a bond issue is credit enhanced, the District shall adhere to the investment guidelines of the credit enhancement provider.

Requirements of Indenture – The District will comply with all terms and conditions of the appropriate legal documents related to the debt. Such limitations shall include, but not be limited to Investments in the Indenture.

PROFESSIONAL SERVICES

A variety of specialized service providers will be used to provide professional assistance with the determination of the type of financial obligation to use as well as the process of issuing securities. These

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will include but are not limited to:

- **Financial Advisor** – The Financial Advisor (Advisor) is a consultant who advises the District (issuer) on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. While the Advisor is legally able to serve as underwriter for an issue under certain circumstances, in order to avoid any appearance of a conflict of interest, the District shall not use the Advisor as an underwriter on any issuances where they have served as the Advisor.
- **Underwriter** – A dealer which purchases a new issue of municipal securities for resale. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding.
- **Bond Counsel** – An attorney retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from taxation. Typically, bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.
- **Trustee** – A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

DEBT MANAGEMENT

The District will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.

The District will use credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

The District will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations and continuing disclosure requirements.

District staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refinancing outstanding obligations.

DEBT CAPACITY

The District will set user rates at levels needed to fully cover operations, maintenance and administration and to meet debt coverage covenants.

Appropriate reserve levels shall be established by the Board to minimize impacts to ratepayers when development fees are insufficient to pay for expansion-related debt.

ISSUANCE OF JOINT DEBT

The District may enter into joint debt issuances with any of its Joint Powers Agencies. Any joint debt issuance with other parties will stipulate that the involved parties will take no action that will be to the detriment of the other party as related to the debt.

CREDIT RATING

Recognizing that the credit rating of the District has a direct impact on the cost of borrowing costs, the District shall take timely and appropriate actions to always maintain strong credit ratings and strive to retain ratings in the "AA" rating category from S&P and Fitch.