

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE
ORLAND-ARTOIS WATER DISTRICT**

RESOLUTION NO. 2020-10

ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, the Orland-Artois Water District (the “District”) owns and operates a system for the supply and distribution of water within its service area (the “Water System”); and

WHEREAS, the District desires to (1) repay amounts owed to the Bureau of Reclamation for CVP construction costs under its existing 9(e) Contract and (2) repay amounts owed to the Bureau of Reclamation for conveyance construction costs under its existing 9(d) Contract (together, the “2020 Project”) and intends to finance the 2020 Project via a private placement financing transaction; and

WHEREAS, prior to approving the financing of the 2020 Project, the Board of Directors wishes to adopt a debt management policy meeting the requirements of State law.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Orland-Artois Water District as follows:

Section 1. Adoption of Debt Management Policy. The Board of Directors hereby approves and adopts the Debt Management Policy in the form presented to the Board. The Debt Management Policy shall govern the administration of debt and other long-term obligations issued or incurred by the District, all in accordance and subject to the conditions set forth in such policy.

Section 2. Effective Date. This Resolution shall take effect from and after the date of its passage and adoption.

The foregoing Resolution was duly and regularly introduced, passed, and adopted by the Board of Directors of the Orland-Artois Water District at a regular meeting thereof held on the 20th day of October, 2020.

AYES: *Vereschagin, Pioper, Erickson, Jones, Schomaker*

NOES: *0*

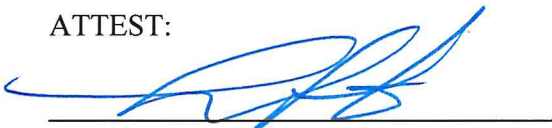
ABSENT: *0*

ABSTAIN: *0*



Mike Vereschagin
President of the Board

ATTEST:



Emil Cavagnolo
Secretary of the Board

Orland-Artois Water District Staff Report

Date: October 20, 2020
To: Board of Directors
From: General Manager
Subject: **Adoption of a Debt Management Policy**

BACKGROUND

The District is in the process of acquiring a permanent contractual right to purchase water in accordance with a contract between the District and the United States of America, Bureau of Reclamation pursuant to the Water Infrastructure Improvement for the Nation (WIIN) Act. This is accomplished with a pay-off of amounts due by the District for CVP construction costs under its existing 9(e) Contract. At the same time, the District desires to pay-off amounts due for its water conveyance system under its existing 9(d) Contract. In order to generate sufficient funds to pay-off amounts due with respect both to the 9(d) Contract and the 9(e) Contract (together, the “2020 Project”), the District wishes to undertake a private placement financing transaction.

California Government Code Section 8855(i) requires that local public agencies like the District adopt a debt management policy meeting the requirements of said provision prior to incurring long-term bonds and other obligations.

District staff, working with the consultants assisting the District with financing the 2020 Project, have prepared for the District a debt management policy meeting the requirements of California Government Code Section 8855(i) to govern the issuance or incurrence of long-term debt of the District.

STAFF RECOMMENDATION

Staff recommends that the Board approve the Debt Management Policy pursuant to the provided resolution.

DISCUSSION

In connection with the financing of the 2020 Project and any other long-term debt obligations of the District, the District will need to submit to the California Debt and Investment Advisory Commission (CDIAC) a preliminary report of debt issuance which will include a certification that the District has adopted a debt management policy that meets the requirements of California Government Code 8855(i). Adoption of the debt management policy by the Board will ensure the District in compliance with this requirement. This is a one-time adoption and need not be renewed or reapproved in connection with each future debt obligation of the District; however, the policy may be amended by the Board at any time in the future.

In accordance with Government Code Section 8855(i), a local debt management policy must include all of the following:

- (a) The purposes for which the debt proceeds may be used.
- (b) The types of debt that may be issued.

- (c) The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
- (d) Policy goals related to the issuer's planning goals and objectives.
- (e) The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

The contemplated debt management policy meets all of these requirements.

FISCAL IMPACT

None.

ATTACHMENTS

1. Resolution No. 2020-10
2. Debt Management Policy

Orland-Artois Water District

Debt Management Policy

Approved by a Resolution adopted by the Board of Directors on
October 20, 2020

This Debt Management Policy (the “Debt Policy”) of the Orland-Artois Water District (the “District”) was approved by the Board of Directors to be effective as of the date first set forth above. The provisions of this Debt Policy may be amended or waived by the Board of Directors as it deems appropriate from time to time in the prudent management of the debt and financing needs of the District.

1. Findings

This Debt Policy is intended to comply with Government Code Section 8855(i), which became effective on January 1, 2017, and shall govern all debt undertaken by the District.

The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Help maintain the District's financial health.
- Ensure the District has the flexibility to meet its financial needs.
- Protect the District's credit-worthiness.
- Ensure that all debt is structured to benefit both current and future constituents of the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives.

2. Policies

A. Purposes For Which Debt May Be Issued

(i) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and/or rehabilitation of water rights, capital improvements and other facilities, property and assets, equipment and land to be owned and operated by the District or funded for the benefit of the District.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the District and its constituents.
- When the debt is issued to refinance outstanding debt in order to produce savings or to realize other benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for recurring operating expenses and routine maintenance expenses.

(c) The District may use long-term debt financings subject to the following conditions:

- The project and/or costs to be financed must be approved by the Board of Directors.

- The weighted average maturity of the debt will generally not exceed the average useful life of the project being financed.
- The District estimates that sufficient 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 state and federal law.

(ii) Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. 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

The following types of debt are allowable under this Debt Policy:

- Installment purchase agreements, loans and similar debt-financing contracts
- Loans and contracts with State or Federal agencies, including the United States Bureau of Reclamation
- Lines of credit
- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs)
- Lease revenue bonds and lease-purchase transactions
- Other revenue bonds and Certificates of Participation (COPs)
- Tax and revenue anticipation notes (TRANS)
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Refunding bonds, notes, loans, and other obligations

The Board of Directors may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

C. Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning. 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. Items outside the capital budget or capital improvement plan may also be financed.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that funding is available for capital and non-capital projects 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 from its general fund.

D. Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserves 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 incorporated in the District's annual operations budget.

It is a policy goal of the District to protect its 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.

When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to at least 3.0% of the refunded principal amount.

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.

Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the District in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12.
- Any reporting obligations to the California Debt and Investment Advisory Commission (CDIAC)

- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- The District's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the General Manager (or his or her designee), or (b) by the District, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the District.

END OF DEBT MANAGEMENT POLICY