RESOLUTION NO. 18-17

RESOLUTION OF THE BOARD OF DIRECTORS OF RUNNING SPRINGS WATER DISTRICT ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, pursuant to Senate Bill 1029 ("SB 1029"), which was signed by the California Governor on September 12, 2016, California public agencies that issue debt must adopt debt management policies that meet certain criteria; and

WHEREAS, in response to SB 1029, and in order to adhere to sound financial management practices, the Board of Directors finds it desirable to approve the Running Springs Water District Debt Management Policy; and

NOW, THEREFORE, BE IT RESOLVED that the Board of Directors of Running Springs Water District does hereby approve and adopt the Debt Management Policy as set forth in Exhibit "A" which is attached and incorporated by reference.

ADOPTED this 21st day of June, 2017.

President of the Board of Directors
Running Springs Water District

ATTEST:

Secretary of the Board of Directors
Running Springs Water District

Ayes: Ayers, Bennett, Mackzum, Terry
Noes: 0
Abstentions: 0
Absent: Grabow

RUNNING SPRINGS WATER DISTRICT
DEBT MANAGEMENT POLICY

POLICY STATEMENT

This policy documents the Running Springs Water District ("District"), goals for the use of debt instruments and provides guidelines for the use of debt by the District for financing infrastructure and project needs of the District. The District's overriding goal in issuing debt is to respond to, and provide for, the infrastructure, capital project and other financing needs of the District while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The District issues debt instruments, administers District-held debt proceeds and makes debt service payments, acting with prudence, diligence and attention to prevailing economic conditions.

The District will endeavor to pay for all infrastructure, projects and other financing needs from a combination of current revenues, available reserves, if any, and prudently issued debt. The District believes that debt can provide an equitable means of financing projects and provide access to new capital needed for infrastructure and project needs. Debt will be used to meet financing needs if: (1) it meets the goals of equitable treatment of all District customers, respectively, both current and future, (2) it is the most cost-effective means available to the District, (3) it is fiscally prudent, responsible and diligent under the prevailing economic conditions, and (4) there are other important policy reasons thereof.

Purpose of Policy

The purpose of a debt management policy is to:

- Establish parameters for issuing debt;
- Provide guidance to decision makers:
    - With respect to all options available to finance infrastructure, capital projects and other financing needs; and
    - So that the most prudent, equitable and cost effective method of financing can be chosen;
- Document the objectives to be achieved by staff both prior to issuance and subsequent to issuance;
- Promote objectivity in the decision-making process; and
- Facilitate the financing process by establishing important policy decisions in advance.

The District will adhere to the following legal requirements for the issuance of public debt:

- The state law which authorizes the issuance of the debt;
- The federal and state laws which govern the eligibility of the debt for tax-exempt status;
- The federal and state laws which govern the issuance of taxable debt; and
- The federal and state laws, which govern disclosure, sale, and trading of the debt.

1. GENERAL PROVISIONS

The District will provide for a periodic review of its financial performance and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting and rate setting process.

Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget.

The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible interest rates.

This Debt Management Policy is integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such, the following principles outline the District's approach to debt management.

- The District will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (1) projected existing revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (2) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt;

- The District will not issue debt to cover operating needs, unless specifically approved by its governing body; and

- Debt issuance for a capital project will not be considered unless such project has been incorporated into the capital plan of the District or as otherwise approved by the governing body thereof.

2. CONDITIONS FOR DEBT ISSUANCE

The following guidelines formally establish parameters for evaluating, issuing and managing the District's debt. The guidelines outlined below are not intended to serve as a list of rules to be applied to the District's debt issuance process, but rather to serve as a set of practices to promote sound financial management.

In issuing debt, the District's objectives will be to:

- Achieve the lowest cost of capital;
- Ensure ratepayer equity;
- Maintain the adopted credit rating strategy and access to credit enhancement; and
- Preserve financial flexibility.

Standards for Use of Debt Financing

When appropriate, the District will use long-term debt financing to finance public infrastructure needs of the District to achieve an equitable allocation of capital costs/charges between current and future system users, to provide more manageable rates in the near and medium term and to minimize rate volatility. The District may issue any type of debt legally available to the District.

The District shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life.

Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

Financing Criteria

Each debt issuance should be evaluated on an individual basis, overall financing objectives and current market conditions.

The District will evaluate alternative debt structures and timing considerations to ensure the most cost-efficient financing under prevailing market conditions.

Credit Enhancement – The District will consider the use of credit enhancement on a case-by-case basis. Only when clearly evident savings can be realized shall credit enhancement be utilized.

Cash-Funded Reserve versus Surety – If the issuance of debt requires a cash-funded debt service reserve fund, then the District may purchase a surety policy or replace an existing cash-funded debt service reserve fund when deemed prudent and advantageous. The District may permit the use of guaranteed investment agreements for the investment of reserve funds pledged to the repayment of any of the District's debt when it is approved by the Board of Directors (Board).

Call Provisions – In general, the District's securities should include optional call provisions. The District will avoid the sale of non-callable, long-term fixed rate debt, absent careful evaluation of the value of the call option.

Additional Debt Test/Rate Covenants – The amount and timing of debt will be planned to comply with the additional debt tests and rate covenants outlined in the appropriate legal and financing documents and this policy.

Short-Term Debt – The District may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future bonding capacity.

Use of Variable Rate Debt – The District will not issue variable interest rate debt without the specific approval of its governing body.

Investment of Debt Proceeds - Debt proceeds will be invested in accordance with the permitted investment language outlined in the debt documents for each transaction, unless further restricted or limited in the District's statement of investment policy. The District will seek to maximize investment earnings within the investment parameters set forth in the respective debt financing documentation. The reinvestment of debt proceeds will be incorporated into the evaluation of each financing decision specifically addressing arbitrage/rebate position and evaluating alternative debt structures and refunding savings on a "net" debt service basis, where appropriate.

Refinancing Outstanding Debt

The General Manager shall have the responsibility to evaluate potential refinancing opportunities. The District will consider the following issues when analyzing potential refinancing opportunities:

Debt Service Savings – The District shall establish a target savings level equal to 3% of the par of debt refunded on a net present value (NPV) basis. This figure will serve only as a guideline and the District may determine that a different savings target is appropriate. The District shall evaluate each refinancing opportunity on a case-by-case basis. In addition to the savings guideline, the following shall be taken into consideration:

- Remaining time to maturity;
- Size of the issue;
- Current interest rate environment;
- Annual cash flow savings;
- The value of the call option; and
- Other factors approved by the applicable member agency.

The decision to take all savings upfront or on a deferred basis must be explicitly approved by the District's governing body.

Restructuring – The District may seek to refinance a bond issue on a non-economic basis, in order to restructure debt, to mitigate irregular debt service payments, accommodate revenue shortfalls, release reserve funds, or comply with and/or eliminate rate/bond covenants.

Term/Final Maturity – The District may consider the extension of the final maturity of the refunding bonds in order to achieve a necessary outcome, provided that such extension is legal. The term of the bonds should not extend beyond the reasonably expected useful life of the asset being financed. The District may also consider shortening the final maturity of the bonds. The remaining useful life of the assets and the concept of inter-generational equity will guide these decisions.

Economic versus Legal Defeasance - When evaluating an economic versus legal defeasance, the District shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The District shall take all necessary steps to optimize the yield on its refunding escrows investments and avoid negative arbitrage.

Outstanding Debt Limitations

Prior to issuance of new debt, the District shall consider and review the latest credit rating agency reports and guidelines to ensure the District's credit ratings and financial flexibility remain at levels consistent with the most highly rated comparable public agencies.

Method of Issuance

The District will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

Competitive Sale – In a competitive sale, the District's bonds shall be awarded to the bidder providing the lowest true interest cost ("TIC"), as long as the bid adheres to the requirements set forth in the official notice of sale.

Negotiated Sale – The District recognizes that some bond issues are best sold through negotiation with a selected underwriter. The District has identified the following circumstances below in which this would likely be the case:

- Issuance of variable rate or taxable bonds;
- Complex structures or credit considerations (such as non-rated bonds), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders, unique/proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process;
- Market volatility, such that the District would be better served by flexibility in the timing of its sale, such as in the case of a refunding issue wherein the savings target is sensitive to interest rate fluctuations, or in a changing interest rate environment;
- When an underwriter has identified new financing opportunities or presented alternative structures that financially benefit the District; and
- As a result of an underwriter's familiarity with the project/financing, that enables the District to take advantage of efficiency and timing considerations.

Private Placement – From time to time the District may elect to issue debt on a private placement basis. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

Market Communication, Debt Administration and Reporting Requirements

Rating Agencies – The General Manager shall be responsible for maintaining the District's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investors Service.

Observance of Debt Covenants and Use of Debt Proceeds – The General Manager may periodically ensure that the District is in compliance with all legal covenants for each debt issue. The General Manager shall approve all expenditures of debt proceeds and periodically review expenditures to ensure debt proceeds are only expended on authorized improvements and costs.

Continuing Disclosure – The General Manager may periodically confirm with the District that all debt issued is in compliance with Rule 15c2-12(b)(5) by required filing as covenanted in each debt issue's Continuing Disclosure Agreement.

Record Keeping – A copy of all debt-related records shall be retained at the District's offices or in an approved storage facility. At minimum, these records shall include all official statements, bid documents, bond documents/transcripts, resolutions, trustee statements, leases, and title reports for each financing (to the extent available). To the extent possible, the District shall retain an electronic copy of each document, preferably in PDF format.

Arbitrage Rebate – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The General Manager shall ensure that all bond proceeds and investments are tracked in a manner that facilitates accurate calculation; if a rebate payment is due, such payment is made in a timely manner.

Policy Requirements

Policy Review – This policy should be reviewed periodically by the Board and updated as needed. This policy is intended to comply with Senate Bill 1029 codified as Government Code Section 8855 ("SB 1029").