

# **Pajaro Sunny Mesa Community Services District**

## **2022 Debt Management Policy**

Approved by Board Resolution \_\_01-01-22\_\_\_\_  
adopted on January 27, 2022

This Debt Management Policy (the “Debt Policy”) of the Pajaro Sunny Mesa Community Services 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 however 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 subdivision (i)(1) of California Government Code Section 8855 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 to:

- Help maintain the District's financial health.
- Allow the District flexibility to meet its financial needs.
- Protect the District's credit-worthiness.
- Structure debt to benefit both current and future District ratepayers.
- Allow the District's debt to be consistent with the District's planning goals and objectives.

2. **POLICY**

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 financing is appropriate if:

- The project to be financed is necessary to provide basic services.
- The project to be financed will provide benefit to constituents over multiple years.
- The total debt does not constitute an unreasonable burden to the District and its constituents.
- 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 financing is generally not appropriate for recurring operating expenses and routine maintenance expenses.

(c) The District may use long-term debt financing if:

- 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.
- The District shall maintain debt service coverage at no less than 120% (1.20)

(ii) Short-term debt. Short-term debt may be issued to finance 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, upon approval of the Board of Directors.

#### B. TYPES OF DEBT

The following types of debt may be allowed 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 financing, 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 why a variable rate issue would be beneficial to the District in a specific circumstance.

The District shall adhere to the covenant and/or conditions of the lender for debt service.

#### 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 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 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<sup>1</sup>.

- 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 ~**

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<sup>1</sup> 17 CFR § 240.15c2-12 - Municipal securities disclosure