RESOLUTION NO. 060

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CRESLINE SANITATION DISTRICT ESTABLISHING A DEBT MANAGEMENT POLICY

WHEREAS, the Crestline Sanitation District ("the District") is a public agency organized and operating as a county sanitation district pursuant to California Health and Safety Code Section 4700 et seq.;

WHEREAS, the District's Board of Directors ("the Board") desires to maintain a formal policy regarding the management of District debt pursuant to the applicable requirements of California law; and

WHEREAS, the Board has employed qualified staff to manage any District debt in accordance with the law and the terms of the District's debt management policy.

NOW, THEREFORE, BE IT RESOLVED by the Board that the Debt Management Policy attached hereto and incorporated herein by this reference is hereby adopted as the formal debt management policy of the District.

BE IT FURTHER RESOLVED by the Board that the District's General Manager is hereby authorized and directed to manage any District debt in a manner consistent with the terms hereof and in accordance with any further directions from the Board.

BE IT FURTHER RESOLVED by the Board that this Resolution shall take effect immediately upon its adoption.

ADOPTED this 15th day of October, 2019.

AYES:
NOES:
ABSTAIN:
ABSENT:

____
Chairman, Board of Directors

ATTEST: __________________________
Secretary, Board of Directors

CRESTLINE SANITATION DISTRICT
BOARD OF DIRECTORS POLICY

RESOLUTION NO:	**060**
SUBJECT:	**DEBT MANAGEMENT POLICY**
EFFECTIVE DATE:	**October 15, 2019**
REVISION DATES:	**None**
RESPONSIBILITY:	**BOARD OF DIRECTORS**

1. INTRODUCTION

The Debt Management Policy ("Debt Policy") sets forth the guidelines and formalizes debt issuance and management related policies and procedures for the Crestline Sanitation District of San Bernardino County (the "District"), California. The debt policies of the District are subject to and limited by applicable provisions of state and federal law and to prudent debt management principles.

When used in this Policy, "debt" refers to all indebtedness and financing lease and installment purchase obligations.

2. DEBT POLICY OBJECTIVE

The primary objectives of the District's debt and financing related activities are to:

- Maintain cost-effective access to the capital markets through prudent fiscal management policies and practices;
- Minimize debt service commitments through effective planning and cash management;
- Ensure future financial flexibility;
- Maintain full and complete financial disclosure and reporting;
- Achieve full and timely repayment of debt;
- Comply with Government Code Section 8855(i);
- Ensure the District is in compliance with all applicable federal and state securities laws; and
- Achieve the highest practical credit ratings.

3. BACKGROUND/PROCEDURES

Government Code section 8855(i) requires any issuer of public debt to provide the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue a report of the proposed issuance. Effective January 1, 2017, issuers must certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed issuance is consistent with those policies. The issuer's local debt policies must include the following:

A. Limitations of Debt Issuance

1. Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by 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 ratepayers.
   - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
   - The additional debt complies with outstanding debt covenants.

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

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

   - The project to be financed must be approved by the District Board of Directors.
   - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
   - 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.

2. Short-term debt. Short-term debt may be issued to provide interim construction financing for projects that will ultimately be funded by cash, long-term debt or other sources. Short-term debt may also be issued to provide financing for an even cash flow balance. Short-term debt must be fully paid-off within a five-year period or restructured to long-term debt provided that conditions for long-term debt are satisfied.

3. Financings on Behalf of Other Entities. The District may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of the District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

4. Governing Law. The District shall issue and manage debt in accordance with limitations and constraints imposed by California law and federal tax law. Such constraints include, but are not limited to, private activity tests, review of eligible projects, spend-down tests and arbitrage rebate limitations.

B. Types of Debt Issued

While the District strives to adhere to the Debt Policy, changes in capital markets, unforeseen circumstances, or extraordinary conditions may require exceptions. Exceptions to the Debt Policy shall be reviewed with the Board of Directors for consideration prior to debt issuance.

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

- Revenue bonds pledged with sewer rate revenue
- Lease revenue bonds and lease-purchase transactions
- Refunding bonds
- Certificates of participation (COP)
- Bank and direct private placement loans
- State revolving loan or other governmental agency
- Lines and letters of credit
- Commercial paper
- Bond or grant anticipation notes
- Revenue anticipation notes

- 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

- Conduit financings

The District 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.

C. Debt Issuance

1. Method of Sale – The District Manager and Engineer will decide as to the most effective method to offer securities to investors. Bonds will primarily be sold through competitive sale but may alternatively be sold through negotiated sale due to volatile market conditions, complex security features, or policy goals. Private placement will generally be avoided. The District Manager and Engineer or designee shall be responsible for determining the appropriate way to offer any securities to investors.

   For negotiated sale, any underwriters that are currently suspended by the California State Treasurer's Office from its negotiated underwriting pool may not participate in the District's negotiated sale, pending Board's approval.

2. Credit Rating – The District seeks to obtain and maintain the highest possible credit rating for all categories of short-term and long-term debt. Ratings may be obtained from Moody's, Standard and Poor's, Fitch, or other nationally recognized rating agencies.

3. Debt Capacity – The District will keep outstanding debt within the practical limits of the District's debt service coverage ratio, debt rating and other applicable law.

4. Structural Features

   - Terms – Debt terms will not exceed the average useful life of the asset.

   - Coupon Structure – Debt may include par, premium, discount, and capital appreciation bonds. Coupon structure other than one for par must demonstrate advantageous relative to par bond structure.

   - Fixed vs. Variable Rate – Long-term 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.

   - Maturity Structure – The District's long-term debt may include serial and term bonds.

   - Redemption – The District debt can be issued with call provisions which enable the District to retire the debt earlier or enable the refunding of debt prior to maturity.

The District will evaluate the efficiency of call provision alternatives for each transaction when warranted by market conditions and opportunity.

- Tax Exemption – The District will evaluate tax status of any bond sale with bond counsel and comply with all applicable laws and regulations.

- Consultant Assistance – The District shall utilize the services of independent municipal advisors when deemed appropriate by the District Manager and Engineer or his/her designee. The District shall utilize the services of bond counsel on all debt financings. The District Manager and Engineer or designee shall have the authority to periodically select service providers necessary to meet legal requirement and minimize the District's debt cost. Services may include municipal advisory, underwriting, trustee, escrow agent, arbitrage, special tax, or other consulting. To achieve a balance between service and cost, a competitive bid process or sole-source selection should be utilized.

- Credit Enhancement – The District shall procure credit enhancement for a sale of bonds if it is cost effective to do so. The District in consultation with the Municipal Advisor and Underwriters will insure the bonds over the life of the term if it is deemed beneficial.

5. Debt Service Reserve – Refer to District's Reserve Policy.

6. Disclosure Procedures – The District shall comply with SEC regulations on disclosures, which requires financial and operating information with the Official Statement and with the Continuing Disclosure Annual Report.

D. 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.

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 seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

E. Policy Goals Related to District's 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 Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect ratepayers and 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 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, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

F. Debt Administration/Internal Control Procedures

1. 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.

   The District will periodically review the requirements of and will remain in compliance with the following:

   - Any continuing disclosure undertakings under SEC Rule 15c2-12;
   - Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues; and
   - The District's investment policies as they relate to the investment of bond proceeds.

2. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds. The District will submit a requisition only after obtaining the signature of the District Manager and a Board Director. In those cases, where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the General Manager and the Board Director

shall retain records of all expenditures of proceeds through the final payment date for the debt.

3. Investment of bond proceeds shall be consistent with federal tax requirements and with requirement contained in the indenture or trust agreements.

4. The District shall follow the United States Internal Revenue Service (IRS) guideline for record retention. Records are to be retained for the life of bond plus three (3) years. For refunding, the refunded bonds retention schedule is reset to match the life of refunding bond plus three (3) years.

5. The District shall engage a qualified firm to perform Arbitrage Rebate Calculations for all District bond issuances and prepare reports and filing documents as necessary. 90% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be paid to the IRS no later than sixty (60) days after the end of each fifth bond/COP year. 100% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be paid to the IRS within 60 days of the full defeasance or final maturity of the bonds/COPs.

6. The District shall fully budget all debt service obligations annually. The District will make all debt service payments on time per the bond document schedule.

G. Policy Review

The District Manager and Board of Directors will review this policy prior to any new debt issuance.

APPROVED: By the Board of Directors of Crestline Sanitation District on 10/15/19 .

Ayes: ______________________________

Noes: ______________________________

Absent: ______________________________

Abstain: ______________________________