SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-D**

FROM: Steve Mack, General Manager

Meeting Date: February 1, 2018

SUBJECT: NEW INFORMATION AND DISCLOSURE REQUIREMENTS IN CONNECTION WITH THE LOAN TO BE MADE TO THE DISTRICT BY THE UNITED STATES DEPARTMENT OF AGRICULTURE, RURAL UTILITIES SERVICES, FOR THE FINANCING OF CIP 2017, PHASES 2 AND 3

RECOMMENDED ACTION: Receive a report from the General Manager regarding new information, disclosure and policy requirements for moving forward with the bond/loan obligation with USDA, RUS for construction of Phases 2 and 3 of the 2017 CIP (2018 CIP).

FISCAL IMPACT: none

DISCUSSION:
The District has agreed to move forward with a USDA loan obligation to fund completion of Phases 2 and 3 of the 2017 CIP (2018 CIP because it is happening and funded in Fiscal Year 2018). The 2018 CIP includes replacement of approximately 4,600 ft of existing main and 58 services on Old River Rd at Morningside east to the eastern section of Foothill Drive near where Old River Road intersects with River Road, and includes Orchard Rd and Foothill Drive. The USDA loan obligation will have a total value of approximately $1.8 million and will have a 40 year amortization. The bond will cost the District approximately $70,000 per year. The District has retained the services of Kronick, Moskovitz, Tiedemann and Girard as bond counsel.

Bond counsel has informed us that the District has to approve a debt policy and provide certain information prior to issuing the bond and must make annual representations regarding our debt. I believe our annual Budget Report typically includes most, if not all, of this information and, in the past, our loan documents contained all the required information. We do not have a debt policy.

The required debt policy has the following required elements:

Government Code 8855, as amended by SB 1029 (Ch. 307, Statutes of 2016), mandates that the Governing Board adopt a debt management policy prior to issuing any debt, such as general obligation bonds, tax and revenue anticipation notes (TRANs), and certificates of participation. The policy must include:

(I) the purposes for which the debt proceeds may be used;

(2) the types of debt that may be issued;

(3) the relationship of the debt to, and integration with, the district's capital improvement program or budget, if applicable;

(4) policy goals related to the district's planning goals and objectives; and

(5) internal control procedures to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

Bond counsel has provided an example debt policy that the District can adopt. Please review it. We suggest the policy go into the District Policies and Procedures at Section 3520, following the District Reserve Policy which is at 3510.

Another new requirement comes from SB 450 which requires certain information in the approving documents for any new debt (why aren't these two new similar but apparently unrelated requirements are not more closely tied together?). SB 450, effective on 1/1/18, requires that certain information must be provided to the public at the time an issue is approved. This information is likely best incorporated into the staff report.

The new law requires the governing body (the “Governing Board”) of a local public body (includes a county, city, city and county, public district, public authority, public corporation, nonprofit corporation or other statutorily constituted public entity which is authorized to issue bonds) (a “Local Issuer”) to obtain and disclose, prior to authorization of the issuance of bonds with a term of greater than 13 months, good faith estimates of the following information in a meeting open to the public:

1. **True interest cost of the bonds**: the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

2. **Finance charge of the bonds**: the sum of all fees and charges paid to third parties.

3. **Amount of proceeds received by the public body for sale of the bonds**: the proceeds of the bonds net of the fees and changes paid to third parties and any reserves or capitalized interest paid or funded with proceeds of the bonds.

4. **Total payment amount**: the sum total of all debt service payments on the bonds calculated to the final maturity of the bonds plus the fees and changes paid to third parties not paid with the proceeds of the bonds.

SB 450 requires that the good faith estimates be obtained from an underwriter, financial advisor or private lender. This means that Local Issuers will want to make sure that this information is part of the staff report or agenda item when seeking authorization from the Governing Board for the issuance of bonds. For new money general obligation bonds, school districts are already obligated to disclose estimates of costs of issuance so, for school districts, items 1, 3, and 4 above are the new items to be disclosed.

Recalling our last financing, I believe all this information was included in the presentations prior to acceptance of the new debt. We'll make certain it's included in the approving documentation.

SWEETWATER SPRINGS WATER DISTRICT

3520 Debt Policy

Introduction

The Sweetwater Springs Water District (the "District") incurs debt, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments, acting with prudence and diligence and with attention to prevailing economic conditions. The District believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities. This debt policy addresses debt instruments/securities issued by the District in public or private debt markets and does not cover other types of long-term liabilities.

1. The purposes for which debt proceeds may be used

The District borrows money primarily to fund long-term capital improvement projects, essential equipment and vehicle needs, and to refinance existing debt.

2. The types of debt that may be issued

There are many different types of financing instruments available to the District, including, but not limited to, general obligation bonds, revenue bonds, certificates of participation, federal and state government loans, lines of credit, refunding bonds, and loans. The District may consider any financing instrument allowed by California law.

3. The relationship of debt to, and integration with, the District's Capital Improvement Program or budget, if applicable

Issuance of debt is one of the means of financing in the District's Capital Improvement Program (the "CIP"). District staff will ensure that accurate and complete budgeting of the CIP is prepared as part of the District's annual budget process.

4. Policy goals related to the District's planning goals and objectives:

GOAL 1: IMPLEMENT SOUND FINANCIAL PRACTICES TO ENSURE EFFECTIVE UTILIZATION OF DISTRICT RESOURCES

GOAL 2: PROVIDE RELIABLE AND HIGH QUALITY POTABLE WATER WITH FACILITIES THAT ARE PROPERLY CONSTRUCTED, MANAGED AND MAINTAINED TO ASSURE SYSTEM RELIABILITY

In addition, the District reviews and adopts its Capital Improvement Program which is updated by District resolution each year, as necessary. The CIP lists needed District projects by year, includes estimated costs, and provides ranking criteria for the priority of capital projects.

5. The internal control procedures that the District will implement to ensure that the proceeds of the proposed debt issuance will be directed to the intended use

The District references the following internal controls to ensure all debt proceeds are expended for their intended use:

1. Review approved use of debt proceeds with District representatives who are authorized to initiate contracts and spend funds to ensure expenditures are consistent with the terms of the sale.

2. Educate staff responsible for preparing purchase orders and processing payments as to items that can be paid using debt proceeds, as well as the proper account coding.

3. Require the General Manager to review draw-down requests.