

Tahoe City Public Utility District Financial Policy

Debt Management Policy Policy Number: 2040

I. PURPOSE

This policy is established to set forth the parameters and guidelines for the prudent issuance and management of long-term debt for the District. This policy is intended to guide the utilization of long-term debt for the benefit of the District's customers while minimizing the overall long-term costs to the District. The Government Finance Officers Association (GFOA) considers establishment of a Debt Management Policy as a best practice and a key component of a sound financial management plan.

II. POLICY OVERVIEW

The establishment of debt management policies provides guidelines for the structure of debt issuance, adherence to laws and regulations, and the commitment to a long-term financial planning process. The District, as a matter of policy, maintains conservative financial policies to maintain strong financial health both in the short-term and long-term. The District has historically been an infrequent issuer of debt, with debt primarily used as a tool to finance large capital investments.

III. DEFINITIONS

As used in this policy, the following terms shall have the meanings specified below:

- a. Board - The lawfully elected or appointed governing body of the TCPUD.
- b. Bond Covenant - A legally binding term of agreement between a bond issuer and a bondholder.
- c. Capital Improvement Plan - A capital improvement plan (CIP) is a short-range plan, usually four to ten years, which identifies capital projects and equipment purchases. It provides a planning schedule and identifies options for funding the plan.
- d. Capital Project - Major construction, acquisition or renovation activities which add value to the District's physical assets or significantly increase their useful life - also called capital improvements.
- e. Constituents - Residents, property owners, ratepayers, customers, beneficiaries of services, business owners, and voters within the District's boundaries.
- f. Debt Service - The amount necessary to pay principal and interest requirements on any particular type of long-term debt.
- g. Debt Service Coverage Ratio - A measurement of the cash flow available to pay current debt obligations due within one year.
- h. District - The Tahoe City Public Utility District (District or TCPUD).
- i. Government Finance Officers Association (GFOA) is an industry recognized national organization. GFOA's mission is to advance excellence in state and local government financial management.
- j. Long-Term Debt - Debt with a maturity that is 12 months or longer.
- k. Operating Expenses - expenditures incurred as a result of performing normal and routine business operations of the District.
- l. Policy - This "Debt Management Policy."
- m. Term - Refers to the length of the payment schedule to repay the borrowed funds. The term may set payment schedule over months or years.

IV. PROCESS

The District may consider the issuance of long-term debt on a case-by-case basis for any particular capital project that may warrant the use of financing.

During the course of normal operations, the District may need to issue long-term debt to fund certain capital projects (e.g., Water Treatment Plant, major infrastructure projects, and other significant one-time acquisitions). The District shall not use long-term debt to fund operating expenses. The following debt management policy is intended to demonstrate a commitment to long-term financial planning. This policy will be used in conjunction with the District's long-term financial planning process and the funding needs as outlined, and identified, in the Capital Improvement Program and other District planning documents. The Board shall approve all issuance of debt by the District. The payment source for the Debt Service shall be identified prior to approval of the debt.

1. Funding of Annual Renewal and Replacement Capital Projects

The District will provide adequate annual rate revenue and or a combination of rate revenue and property tax funding to prudently fund annual renewal and replacement capital projects. Given funding from rates and property tax, as a matter of policy, the District should not issue long-term debt to fund annual renewal and replacement capital projects. The minimum annual funding from rates shall be set during the development of the water and sewer rate study which occurs every five years. The District, at any time, can reset the minimum annual funding from rates.

2. Long-Term Debt as a Funding Mechanism

The District may consider the use of long-term debt to fund significant, non-reoccurring, capital projects. A policy objective in issuing long-term debt is to minimize the financial and rate impacts of significant non-reoccurring capital projects to the District's customers.

3. Types of Long-Term Debt

To minimize the overall costs of debt, the District shall strive, at all times, to utilize the lowest and best available cost option for issuing debt.

4. Bond Covenants

The District, at all times, shall adhere to and meet any bond covenants put forth by bonds issued by the District. Bond covenants are legal obligations placed upon the District. If the District is not in compliance with bond covenants, the District management team shall inform the Board and take appropriate action (e.g., rate adjustments or property tax transfers) to restore the District's compliance with the bond covenants.

5. Debt Service Coverage Ratio

The District, at all times, shall meet the minimum debt service coverage (DSC) requirements associated with their bond covenants. For financial planning and rate setting purposes, the District shall meet a minimum DSC of 1.25 times annual debt service on all outstanding debt. However, for long-term financial planning purposes, the District will target a minimum DSC greater than the legally required level stated within the bond covenants.

6. Accounting and Reporting Standards

The District will comply with all applicable accounting and reporting standards.