

## AGENDA

### **BOARD OF DIRECTORS FINANCE COMMITTEE MEETING**

#### **DELTA DIABLO**

*(a California Special District)*

**PLANT OPERATIONS CENTER CONFERENCE ROOM  
2600 PITTSBURG-ANTIOCH HIGHWAY  
ANTIOCH, CA 94509**

**THURSDAY, NOVEMBER 7, 2019  
9:00 A.M.**

*Persons who wish to address the Board during Public Comments or with respect to an item on the Agenda will be limited to three (3) minutes. The Board Chair may reduce the amount of time allotted per speaker at the beginning of each Item or Public Comments period depending on the number of speakers and the business of the day. Your patience is appreciated. A break may be called, or an item may be taken out of order, at the discretion of the Board Chair.*

**A. PUBLIC COMMENTS**

**B. REVIEW DRAFT DEBT MANAGEMENT AND CONTINUING DISCLOSURE  
POLICY (Carol Margetich)**

**C. ADJOURNMENT**

The District will provide reasonable accommodations for persons with disabilities who plan to participate in Board (or committee) meetings by contacting the Secretary to the Board 24-hours prior to the scheduled meeting at (925) 756-1927. Disclosable public records related to an open session item on a regular meeting agenda and distributed by the District to a majority of members of the Board of Directors less than 72 hours prior to that meeting are available for public inspection at the Treatment Plant Building located at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal working business hours.





## MEMORANDUM

Date: November 7, 2019  
 To: Sean Wright, Chair, Finance Committee  
 From: Carol Margetich, Business Services Director *em*  
 SUBJECT: REVIEW DRAFT DEBT MANAGEMENT AND CONTINUING  
 DISCLOSURE POLICY

---

### RECOMMENDATION

Review and comment on draft Debt Management and Continuing Disclosure Policy

### Background Information

Financial Sustainability is one of the five goal areas in the District's Strategic Business Plan with 1) maintaining prudent reserves and a high bond rating, and 2) planning for the preservation, replacement, and expansion of District assets as two primary supporting objectives. In order to formalize the District's approach to managing debt and ensuring compliance with all federal and state legal requirements, staff has developed a draft "Debt Management and Continuing Disclosure Policy" (Debt Policy) that addresses the permissible uses, types, and parameters associated with debt management. California Senate Bill No. 1029 (SB 1029), approved by the Governor on September 12, 2016, amends California Government Code Section 8855 related to local government debt management and requires that any issuer of state or local government debt shall submit a report on the issuance of any debt to the California Debt and Investment Advisory Commission (CDIAC), provide certain ongoing reporting related to such debt, and adopt a debt policy concerning any debt issuance.

The draft Debt Policy includes the following five elements, as required by SB 1029:

1. 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 issuer's capital improvement program or budget, if applicable
4. Policy goals related to the issuer's planning goals and objectives
5. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use

### Analysis

Staff prepared the attached draft Debt Policy using the following methodology:

- Reviewed numerous debt policies developed by the District's financial advisor (PFM) for other agencies and municipalities, which met the requirements of SB 1029, as well as debt policies from other regional agencies
- Integrated key, relevant provisions of the various policies to develop a comprehensive draft

- Analyzed and addressed specific matters of interest to the District and reconciled feedback received from internal staff
- Elected to provide additional guidance and address specific issues via a more detailed administrative procedure document, which is currently under development
- Coordinated legal and financial advisor review and incorporated comments

In developing the draft Debt Policy, staff considered the level of detail, the District's overall risk profile, and the need to ensure appropriate Board reporting, transparency, and internal controls associated with debt management. The document provides a moderate level of detail and specificity, while including a number of conservative provisions, including:

- Targets the highest possible credit ratings consistent with the District's debt management objective
- Specifies a debt service coverage ratio minimum of 1.80
- Specifies that the use of debt financing will be for eligible capital projects, including acquisition, construction or major rehabilitation of capital facilities, and the proceeds derived from long-term borrowing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures
- Specifies that the weighted-average maturity of bonds should not exceed 100 percent of the weighted-average useful life of the capital assets being financed

Because the draft Debt Policy specifies that Board authorization is required for each debt transaction, this ensures appropriate Board reporting, transparency, and maintenance of internal controls regarding debt administration.

In addition, the Debt Policy addresses required disclosures related to debt and appoints the Business Services Director as responsible for these disclosures. This includes required disclosures at the time of issuance, and continuing disclosures to CDIAC under the Municipal Securities Rulemaking Board.

#### Fiscal Impacts

The adoption of the Debt Policy would not have an immediate financial impact, but the content of the policy governs any subsequent debt issuance. Future debt issuance would continue to be managed to minimize the potential for negative financial impacts by ensuring adequate revenue is collected via rates and fees to meet debt service payments, while ensuring a minimum debt service coverage ratio (1.80) to support the District's overall financial sustainability strategic goal. The draft Debt Policy would not require any adjustments from key funding assumptions associated with rate approval by the Board for Fiscal Year 2019/2020 (FY19/20).

#### Attachment

Proposed Debt Management and Continuing Disclosure Policy

CM/VD:st

# Delta Diablo

## ADMINISTRATIVE POLICY HANDBOOK

**POLICY TITLE:** DEBT MANAGEMENT AND CONTINUING DISCLOSURE  
**POLICY NUMBER:** 3075  
**PROCEDURE:** XXXXXX  
**DATE APPROVED:** XXXXXX

---

**Federal Glover, Board Secretary**

**3075.1 Purposes and General Provisions.** The Government Finance Officers Association (GFOA) recommends that state and local governments adopt comprehensive written debt management policies as a best management practice to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital financial planning. Additionally, Government Code Section 8855(i) requires public agency issuers of debt to adopt comprehensive written debt management policies. This Debt Management and Continuing Disclosure Policy (Debt Policy) is intended to comply with Government Code Section 8855(i). The purpose of this Debt Policy is to organize and formalize debt issuance and management related policies and procedures for Delta Diablo. This Debt Policy governs all debt issuances by the District and by the Delta Diablo Integrated Financing Corporation. Except where any provision of this Debt Policy refers separately to the IFC, each use of the term “District” in this Debt Policy means the District and the IFC.

State and federal laws and regulations govern the District’s activities under this Debt Policy. In its implementation of this Debt Policy, the District must comply with all applicable state and federal laws and regulations, including but not limited to laws and regulations limiting the types of debt the District may issue and how that debt may be issued, and any applicable appropriations limits and debt limits. Those state and federal laws and regulations may limit the application of this Debt Policy. If any provision of this Debt Policy conflicts with any state or federal law or regulation, either (a) if feasible, the conflicting provision of this Debt Policy shall be modified to be compliant with the applicable conflicting state or federal law or regulation, or (b) if the conflicting provision of this Debt Policy cannot be so modified, it shall not be implemented by District staff.

**3075.2 Objectives.** The primary objectives of the District’s debt and financing related activities are the following:

- 3075.2.1** Maintain cost-effective access to public and private capital markets through prudent fiscal management policies and practices;
- 3075.2.2** Specify parameters related to the prudent use of debt in the context of the District’s rates and financial planning;
- 3075.2.3** Ensure debt proceeds are expenditures for permissible uses as defined in this policy, and in accordance with bond covenants and other applicable requirements;



- 3075.2.4 Minimize debt service commitments through effective planning and cash management;
- 3075.2.5 Ensure the District is compliant with all applicable federal and state securities laws;
- 3075.2.6 Protect the District's creditworthiness and achieve the highest practical credit ratings; and,
- 3075.2.7 Maintain the District's sound financial position.

**3075.3 Scope and Delegation of Authority.** This Debt Policy will govern the issuance and management of all debt issued by the District, including the selection and management of related financial and advisory services and products, and the investment of bond proceeds, all in accordance with state and federal laws and regulations.

The District's Board of Directors retains authority to modify, repeal, or replace this Debt Policy. Responsibility for implementation of the Debt Policy, and day-to-day responsibility for structuring, implementing, and managing the District's debt and finance program, will reside with the General Manager or his/her designee. The General Manager may develop procedures consistent with this Debt Policy to direct the implementation of this Debt Policy by District staff. The Board's adoption of the District's Annual Budget and Capital Improvement Program (CIP), or review of the financial plan, does not constitute authorization for debt issuance for any capital projects. This Debt Policy requires that the Board of Directors specifically authorize each debt financing in accordance with all applicable state and federal laws and regulations.

The Board of Directors recognizes that changes in the public and private capital markets, District programs, and other unforeseen circumstances may, from time to time, produce situations that are not covered by the Debt Policy and will require modifications or exceptions to achieve policy goals. In these cases, the Board of Directors may consider modifying this Debt Policy to provide District staff with flexibility to respond to changed circumstances, while ensuring this policy remains compliant with state and federal laws and regulations.

#### **3075.4 Roles and Responsibilities**

- 3075.4.1 General Manager or his/her designee – Provides oversight of debt program and prepares recommendations on debt to the Board of Directors.
- 3075.4.2 Executive Director of the IFC – Provides oversight of debt program and prepares recommendations on debt to the Board of Directors.
- 3075.4.3 Business Services Director – Has primary responsibility for implementing the General Manager's direction on debt issuance recommendations, financing transaction execution, oversight of bond proceeds expenditures, and ongoing debt management.
- 3075.4.4 Board of Directors – Sets debt policy and authorizes individual transactions.

**3075.5 Ethics and Conflicts of Interest.** Members of the Board of Directors and District staff members who have roles and responsibilities under this Policy: (a) will not engage in any personal business activities that could conflict with proper and lawful execution of securing capital financing, (b) will comply with the District's Conflict of Interest Code, as may be updated from time to time; and (c) will comply with all other applicable state and federal conflict of interest laws and regulations.

**3075.6 Integration with Other Financial Policies and Documents.** The District is committed to long-term capital and financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management, and budget administration. Policies related to these topics are adopted separately but affect this Debt Policy. If debt service is a component of proposed new or increased fees or charges (e.g., Sewer Service Charges), at the time the Board of Directors is asked to approve those new or increased fees or charges, the Board of Directors will be presented with financial information in support of the proposed fees or charges, including but not limited to the District budget, any relevant provisions of the CIP, and the terms of any debt service repaid by the fees or charges.

**3075.7 Standards for Use of Debt Financing.** In financial planning, the District will evaluate the use of various alternatives including, but not limited to, current year funding of capital projects through rates, various forms of debt financing, use of reserves, and inter-fund loans and transfers. The District will utilize the most advantageous financing alternative and balance the goals of long-term cost minimization, risk exposure, and compliance with generally-accepted rate-setting principles. The District's debt management program will consider debt issuance where public policy, equity (including intergenerational equity), generally-accepted rate-setting principles, economic efficiency, and compliance with long-term financial planning parameters that favor financing over cash funding.

**3075.7.1 Use and Timing of Debt.** The District will integrate its debt issuances with the goals of its CIP by timing the issuance of debt to ensure that projects are planned when needed in furtherance of the District's public purposes (as articulated in, inter alia, the District's mission, vision, and goals) and are consistent with the District's budget, any applicable debt or appropriations limits, and other financial information the General Manager or Business Services Director deems relevant. When the Board of Directors is asked to approve new or increased fees or charges (e.g., Sewer Service Charges), the Board of Directors will be provided all legally-required financial information in support of the new or increased fees or charges, and additional financial information the General Manager or Business Services Director deems relevant.

**3075.7.1.1** All capital projects in the CIP are eligible to use debt financing, so long as the minimum revenues are generated as described in Section 3075.7.1.

Debt financing will be used to finance eligible capital projects, including the acquisition, construction, or rehabilitation of capital facilities, when funding requirements cannot be met with current revenues, cash reserves or interfund loans and/or transfers or the use of such funds would be contrary to rate-setting principles. The proceeds derived from long-term borrowing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures.

With respect to debt repayment and amortization, the debt repayment period will be structured so that the weighted average maturity of the debt does not exceed 100% of the expected average useful life of the project being financed.

**3075.7.2 Credit Quality.** All District debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with the District's debt management objectives and legal terms and covenants of outstanding debt obligations. As debt service coverage is a key ratings consideration, the District shall target a debt service coverage ratio of at least 1.75 for financial planning and rate-setting purposes.

**3075.7.3 Ongoing Debt Administration and Internal Controls.** The District will maintain all debt-related records according to the District's Retention Policy or debt financing documents, whichever retention timeline is longer. The District will maintain internal controls to ensure compliance with the Debt Policy (including use of bond proceeds for purposes specified in the applicable Bond Official Statements and in compliance with this debt policy), all debt covenants, and any applicable requirements of federal and state law, including but not limited to the following: initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, investment of bond proceeds (including, for example, any continuing disclosure obligations under Securities and Exchange Commission (SEC) Rule 15c2-12, and tax covenants, and related federal tax compliance requirements such as arbitrage restrictions and rebate requirements), and annual transparency reporting to California Debt and Investment Advisory Commission.

**3075.7.4 Rebate Policy and System.** The District will develop a system of reporting interest earnings that relates to and complies with Internal Revenue Code requirements relating to rebate, yield limits, and arbitrage. The District will accurately account for all interest earnings in debt-related funds to ensure that the District is compliant with all debt covenants and with state and federal laws. The District will invest funds in accordance with the investment parameters set forth in each respective bond indenture, and as permitted by the District's Investment of District Funds (Policy No. 3020).

**3075.8 Financing Criteria.** When staff intends to recommend that the District incur indebtedness, or when requested by the Board of Directors, the General Manager will provide a report to the Board that, among other things:

**3075.8.1** Describes the intended use of the financing proceeds (i.e., funding for new projects or to refund existing bonds);

**3075.8.2** Recommends a specific debt type to include duration, type, interest rate characteristics, call features, credit enhancement, or financial derivatives to be used in the transaction;

**3075.8.3** Presents the impact of the bonds on the District's forecasted rates based on the anticipated maturity schedule; and,

**3075.8.4** For refunding transactions, includes a comprehensive report on the debt to be redeemed, the replacement debt, and the anticipated benefits of the transaction shall be provided.

**3075.9 Terms and Conditions of Debt.** The Board of Directors will approve all terms and conditions relating to the issuance of debt, and will approve the control, management, and investment all debt proceeds. The proposed debt terms, coupon structure, debt service structure,

redemption features, any use of capitalized interest, and lien structure must be approved by the Board of Directors.

**3075.10 Types of Debt.** Subject to the approval of the Board of Directors in accordance with applicable state and federal laws and regulations, the following types of debt are allowable under this Debt Policy:

- State Revolving Fund loans
- California Infrastructure and Economic Development Bank loans
- Revenue bonds
- Lease revenue bonds and certificates of participation
- Commercial paper
- General obligation bonds
- 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
- Refunding Obligations
- Bond or grant anticipation notes
- Tax and revenue anticipation notes
- Federal loans
- Lines of credit

**3075.11 Derivatives.** The District will not use municipal derivative products in connection with its borrowing needs.

**3075.12 Credit Enhancements.** The District may consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings or other measurable advantages can be shown will the Board of Directors consider authorizing the enhancement.

**3075.13. Refunding Outstanding Debt.** Refundings are important debt management strategies for the District. Refundings are commonly used to lower future debt service costs but can also be used to change existing legal terms/covenants or restructure debt service. The District will periodically evaluate outstanding bond issues for refunding opportunities and will bring to the attention of the Board those opportunities that are in the District's interest. Reports to the Board on potential refunding shall describe anticipated savings and the structure of refunding and refunded debt, and any refunding transaction executed will be followed with a report on actual savings. Unless necessary or beneficial to do so, the District's refundings will not extend the final maturity of the debt being refunded.

There are two types of refundings: current refundings and advance refundings. These two refunding types differ by the timing in which they occur.

*Current Refunding.* A current refunding is one in which the refinancing is closed within 90 days of the date on which the refunded debt is redeemed. In most circumstances, the District's Board of Directors will set minimum Present Value (PV) Savings threshold of 3% of refunded par for a current refunding.

*Advance Refunding.* An advance refunding is one in which the refinancing is closed more than 90 days prior to the date on which the refunded debt is redeemed. In most circumstances, the



District's Board of Directors will set a minimum PV Savings threshold of 5% of refunded par for an advanced refunding. Lower savings thresholds for both current and advance refundings may be justified in certain circumstances. In those situations, the Business Services Director, in consultation with the District's financial advisor, will recommend an appropriate action by the Board of Directors.

**3075.14 Methods of Issuance.** District bonds may be sold by way of a competitive sale, negotiated sale, or private placement. A recommendation regarding the proposed use method will be prepared by the Business Services Director and General Manager, or his/her designee, and provided to the Board of Directors at the time the Board of Directors is asked to consider approval a proposed bond issuance.

The District will consider the following factors when determining the appropriate method of sale:

**3075.14.1 Competitive Sale.** In a competitive sale, the District's bonds will be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. Conditions under which a competitive sale would be preferred are as follows:

- Bond prices are stable and/or demand is strong
- Market timing and interest rate sensitivity are not critical to the pricing
- There are no complex explanations required during marketing regarding the District's projects, media coverage, political structure, political support, funding, or credit quality
- The bond type and structure are conventional
- Manageable transaction size
- The bonds carry strong credit ratings
- Issuer is well known to investors

**3075.14.2 Negotiated Sale.** The District recognizes that some securities are best sold through negotiation under the following conditions:

- Bond prices are volatile
- Demand is weak or supply of competing bonds is high
- Market timing is important, such as for refundings
- The bonds will carry lower credit ratings or are not rated
- Issuer is not well known to investors
- The bond type and/or structural features are unusual, such as for a forward delivery bond sale, issuance of variable rate bonds, or where there is the use of derivative products
- Bond insurance is not available
- Early structuring and market participation by underwriters are desired
- The par amount for the transaction is significantly larger than normal
- Demand for the bonds by retail investors is expected to be high

**3075.14.3 Private Placement.** If authorized by law, the District may elect to privately place its debt under certain conditions. Such placement will only be considered where a cost savings can be achieved by the District relative to other methods of debt

issuance, or to enable the financing to be completed within a shorter timeframe. Private placements will include not only direct placements with investors or lenders, but also state and federal loan programs.

### **3075.15 Market Relationships**

**3075.15.1 Rating Agencies and Investors.** The General Manager and Business Services Director will be responsible for maintaining the District's relationships with rating agencies, which will typically include two or more of the nationally-recognized statistical rating agencies.

**3075.15.2 Board Communication.** The General Manager will make available to the Board any ratings report or other relevant feedback provided from rating agencies and/or investors regarding the District's financial strengths and weaknesses and recommendations for addressing any weaknesses.

**3075.15.3 Continuing Disclosure.** The District will remain in compliance with SEC Rule 15c2-12, which addresses continuing disclosure obligations. The District will also comply with state reporting requirements as specified in Senate Bill (SB) 1029, which requires initial and ongoing debt reporting requirements for California public agencies.

**3075.15.4 Rebate Reporting.** The use and investment of bond proceeds shall be monitored to ensure compliance with arbitrage restrictions.

**3075.15.5 Other Jurisdictions.** From time to time, the District may issue bonds to fund projects that provide a benefit to other public entities that the District serves. The District will conduct such analyses as deemed necessary to assure adequate cost recovery for such funding and mitigate risks to the District (including consideration of the use of limited bonding capacity).

### **3075.16 Consultants**

**3075.16.1 Selection of Financing Team Members.** The Business Services Director will make recommendations for all financing team members, and the Board of Directors providing final approval. Financing team members may include a financial advisor, bond counsel, disclosure counsel (which may be the same firm as bond counsel), and underwriter. In the event of a competitive bond sale, the District's debt will be offered to the underwriter providing the most cost-advantageous proposal to the District, as determined by the Board of Directors.

**3075.16.2 Financial Advisor.** The District may utilize a financial advisor to assist in its debt issuance and debt administration processes as is deemed prudent and necessary by the Board of Directors and in compliance with applicable Municipal Securities Rulemaking Board (MSRB) regulations. The District's financial advisor should be independent and not provide underwriting services to ensure they are free of real or perceived conflicts of interest.

**3075.16.3 Bond Counsel.** District debt will include a written opinion by legal bond counsel affirming that the District is authorized to issue the proposed debt, and that the District has met all constitutional and statutory requirements necessary for issuance and a determination of the proposed debt's federal income tax status. The approving

opinion and other documents relating to the issuance of debt will be prepared by bond counsel with extensive experience in public finance and tax issues. Bond counsel will be retained by the Board of Directors.

**3075.16.4 Disclosure Counsel.** The District may utilize a separate law firm to serve as disclosure counsel whenever the Board of Directors deems necessary. If cost effective, the Board of Directors may retain the same firm to serve both as bond counsel and as disclosure counsel.

**3075.16.5 Underwriter.** The District's Board of Directors will have the right to select a senior manager for a proposed negotiated sale, as well as co-managers and selling group members, as appropriate.

**3075.16.6 Conflict of Interest Disclosure by Financing Team Members.** All financing team members will be required to provide full and complete disclosures relative to agreements with other financing team members and outside parties. The extent of each disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted that could compromise the firm's ability to provide independent advice that is solely in the District's interests (to the extent the firm's role involves a duty to do so) or which could reasonably be perceived as a conflict of interest.

### **3075.17 Initial and Continuing Disclosure Compliance**

#### **3075.17.1 Disclosure Coordinator and Overall Requirements for Initial and Continuing Disclosure**

The Business Services Director or his/her designee will be the disclosure coordinator of the District (Disclosure Coordinator). The Disclosure Coordinator will perform the following functions:

**3075.17.1.1** Ensure that any Official Statement meets appropriate standards and is approved by the Board of Directors, as required.

**3075.17.1.2** Ensure that initial and continuing disclosure obligations undertaken by the District related to each debt issuance are met, including State of California requirements, and MSRB requirements that the District commits to undertake in the Continuing Disclosure Certificate or Agreement over the life of the bonds to investors.

**3075.17.1.2.1** Initial Disclosure requirements include preparation of the Bond Official statement and reports on the issuance to the California Debt and Investment Advisory Commission (CDIAC).

**3075.17.1.2.2** Ongoing disclosure requirements include annual reports with the MSRB Electronic Municipal Market Access (EMMA) system and the CDIAC.

**3075.18 Exceptions.** In the event there are any deviations or exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the staff report at the time that the bond proposal is presented to the Board of Directors for its consideration.

**3075.19 Policy Review.** Any proposed changes to this Debt Policy must be approved by the Board of Directors.