

CAPITAL ASSET INVESTMENT AND MANAGEMENT

Dept/Div:	Finance	Approved By:	Resolution No. 2021-21
Effective Date:	July 1, 2021	Applicability:	Districtwide
Supersedes:	N/A	See Also:	N/A

1.0 General Policy

- 1.1** The Yorba Linda Water District ("District") Capital Asset Investment and Management Policy (this "Policy") establishes policies and procedures for the efficient planning of District capital related needs and expenditures.
- 1.2** This Policy will ensure sound fiscal and capital planning and requires effective leadership and cooperation of the District's Management Team ("Team"). The responsibility for overseeing the Capital Asset Investment process shall rest with the District Board of Directors ("Board") and General Manager ("GM").
- 1.3** Capital assets, and their functionality, have a major impact on the District's ability to effectively and efficiently deliver services. The purpose of this policy is to provide guidelines for the Team to complete a comprehensive process that allocates limited resources in capital asset investment and management decisions. This policy shall apply to all funds under budgetary and fiscal control from the Board.

2.0 Authorization

The Board is responsible for legislation, policy formulation, and overall direction setting of the District. This includes the approval of financial policies which establish and direct the operations of the District. The General Manager is responsible for the carrying out of policy directives from the Board and managing the day-to-day operations of the District. The Team is to objectively analyze capital proposals and make recommendations to the General Manager and Board on the annual Capital Budget ("CB") and ongoing Capital Improvement Plan ("CIP").

3.0 Definitions

The terms referenced in this policy shall have the meanings as defined below:

- 3.1 Asset Management Plan (AMP)** – An Asset Management Plan is a tactical plan for managing an organization's infrastructure and other assets to deliver an agreed standard of service.
- 3.2 Board** – The Board of Directors of the Yorba Linda Water District.
- 3.3 Capital Asset** – A purchased or constructed asset costing in excess of \$5,000 with a life expectancy of five (5) years or more.
- 3.4 Capital Budget (CB)** – Is the first year of the CIP intended to accurately reflect a fiscal year's anticipation appropriation for capital projects and other capital related expenditures.
- 3.5 Capital Improvement Plan (CIP)** - Is a short-range plan, usually four to ten years, which identifies capital projects and equipment purchases, provides a planning schedule and identifies options for financing the plan.
- 3.6 Capital Outlay** – Capital assets such as vehicles and equipment having a value greater than \$5,000 with a life expectancy of five (5) years or more.

- 3.7 Capital Project** – A capital asset project identified as new construction, expansion, renovation, or replacement project within the District.
- 3.8 Debt** – An obligation to repay borrowed money from a financial institution, investors, etc.
- 3.9 District** – The Yorba Linda Water District.
- 3.10 Financing** – Refers to the method of paying for an asset, including debt financing.
- 3.11 Funding** – District revenue that pays for or offsets the cost of an asset or supports repayment of debt that finances the asset.
- 3.12 General Manager** – General Manager of the District or the person appointed by the Board to act in the capacity of the General Manager and authorized to administer this Policy on his/her behalf.
- 3.13 Grant Funding** – Federal or State funds awarded to the District for a particular purpose.
- 3.14 Pay-as-You-Go Financing (Pay-Go)** - The use of currently available cash resources to pay for capital investments.
- 3.15 Renewal and Replacement (R&R)** – Existing capital assets renovated or replaced which extends the useful life of the asset greater than one year and cost of \$5,000.

4.0 General Capital Asset Planning

- 4.1** The Team will review the AMP, unplanned R&R of existing infrastructure, and Capital Outlay requests to determine capital asset requirements to develop the District's CIP.
- 4.2** The Team will perform an assessment to identify criteria to help differentiate between the merits of each capital asset and develop the most effective and efficient CIP listing. This will enable the Team to prioritize projects on an objective basis.
- 4.3** Upon establishing the CIP, the Team will determine the appropriate funding strategy for each listed capital asset.

5.0 Capital Funding Strategy

- 5.1** The financial resources for the CIP will be through three primary methods: Pay-As-You-GO, Debt financing, and Grant funding. Guidelines are provided below to assist in selecting one of these primary methods.
 - 5.1.1** Factors which favor Pay-As-You-GO financing include circumstances where:
 - 5.1.1.1** The project can be adequately funded from available current revenues and reserves;
 - 5.1.1.2** The project can be completed in an acceptable timeframe given the available revenues;
 - 5.1.1.3** Additional Debt levels could adversely affect the District's credit rating or repayment sources; or
 - 5.1.1.4** Market conditions are unstable or suggest difficulties in obtaining Debt.

5.1.2 Factors which favor long-term Debt financing include circumstances where:

- 5.1.2.1** Revenues available for Debt issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating, which can be maintained;
- 5.1.2.2** Market conditions present favorable interest rates and demand for District Debt financing;
- 5.1.2.3** A project is immediately required to meet or relieve capacity needs or comply with mandates or regulations by state or federal government and current revenues and reserves are insufficient to fund project costs;
- 5.1.2.4** The life of the project or asset financed is five years or longer; or
- 5.1.2.5** Those expected to benefit from the project or asset include generations in years to come (intergenerational).

5.1.3 Factors which favor Grant funding include circumstances where:

- 5.1.3.1** State and/or federal grant funding programs are accepting applications for qualifying capital assets included in the District's CIP; or
- 5.1.3.2** The time constraints between the grant application and potentially being awarded the grant funds are strategically planned within the CIP's time line;

5.2 Once the proper financing options have been determined, the Team will present the five-year CIP to the General Manager and Board for review and approval.**6.0 Additional Conditions/Criteria**

Goals and objectives stated within the District's Debt Management Policy and Strategic Master Plan prompt the Team to develop budgets where the District's Year-End Financial Statements result in a positive Net Position, a year-end debt covenant ratio of at least 225 and a minimum of 365 days in cash calculation. The Team shall propose appropriate rates and charges during the annual budget process to cover the District's cost of service, annual debt service obligations, CB and appropriately fund reserves for future CIP. Ensuring these stated objectives are met, the District will maintain its "AA" bond rating.