

## **TRABUCO CANYON WATER DISTRICT DEBT MANAGEMENT POLICY**

The Debt Management Policy (“Debt Policy”) of the Trabuco Canyon Water District (“District”) was approved by the Board of Directors of the District (“Board”) on February 8, 2022. The Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent financial management of the District.

Debt, properly issued and managed, is a valuable funding resource for the District. It assists in the District’s efforts to allocate limited resources, to provide the highest quality of service to the public, and when used appropriately and prudently, can minimize the District’s utility rates and charges over time.

### **1. PURPOSE**

- 1.1 The purpose of this Debt Management Policy (“Debt Policy”) is to establish and maintain parameters for issuing and managing debt, provide guidance as to types and amounts of permissible debt and methods of sale to be used, articulate policy goals, demonstrate a commitment to long-term capital and financial planning, and promote objectivity in the District’s decision-making process.
- 1.2 The goals of the Debt Policy are to ensure that the District maintains a sound debt position that achieves the most advantageous cost of borrowing commensurate with prudent levels of risk, preserve and enhance credit quality and ratings assigned to its debt, and is intended to comply with law, including California Government Code Section 8855 and the California Debt and Investment Advisory Commission (“CDIAC”) guidance, to ensure all debt issuances are consistent and all required reports are submitted to CDIAC on time.

### **2. POLICY OBJECTIVES**

- 2.1 The primary objectives of the District’s debt and financial-related activities are to:
  - a. Maintain cost-effective access to the capital markets through prudent fiscal management policies and practices;
  - b. Minimize debt service commitments through effective planning and cash management;
  - c. Protect the District’s creditworthiness and achieve the highest practical credit rating;
  - d. Spread cost over the useful life of an asset;
  - e. Smooth out annual cash flow by using debt financing to spread the cost of a project over a period of years;
  - f. Optimize overall financial resources;

- g. Refinance outstanding obligations when appropriate to achieve debt service savings or for programmatic reasons; and
- h. Fully and timely repay all debt.

2.2 The Debt Policy is an integral component of the District's overall financial practices and capital-intensive expenditure plan. The issuance of debt must be generally consistent with the District's planning goals, capital improvement programs, and budget. The issuance of debt must be designed to assure sufficient resources to fund all of the District's operating and capital requirements in all foreseeable circumstances.

### 3. SCOPE AND DELEGATION OF AUTHORITY

3.1 Overall policy direction of this Debt Policy is provided by the District's Board. The General Manager or designee implements the Debt Policy and has day-to-day responsibility for structuring, implementing, and managing the District's debt and finance program. The General Manager or designee will use these guidelines to review and report to the Board any long-term debt implications, including cost of borrowing, historical interest rate trends, credit enhancement capacity, opportunities to refund existing debt obligations, and other financial considerations. This Debt Policy requires that the Board specifically authorize each debt financing.

3.2 While adherence to this Debt Policy is required in certain circumstances, the Board recognizes that changes in the 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, management flexibility is appropriate, upon obtaining specific authorization from the Board.

4. **STANDARDS FOR USE OF DEBT FINANCING.** In financial planning, the District will evaluate the use of various alternatives including current year funding of capital projects through rates, various forms of debt financing, use of reserves, and inter-fund borrowing if available and appropriate. The District will utilize the most advantageous financing alternative, balancing the goals of long-term cost minimization, risk exposure, and compliance with generally accepted ratemaking principles. The District's debt management program will consider debt issuance where public policy, equity, general ratemaking principles, economic efficiency, and compliance with long-term financial planning parameters favor financing over cash funding.

#### 4.1 Use and Timing of Debt

- a. The District will utilize debt financing as an appropriate approach to fund long-term capital improvements and ensure that existing and future users pay their fair share of infrastructure costs. Long-term improvements include the acquisition and/or construction of land, facilities, infrastructure, and enhancements or expansions to existing facilities. Debt may be issued to fund the planning, pre-design, design, land and/or easement acquisition, construction and related fixtures, equipment and other costs

as permitted by law. The District will not issue debt to fund operating needs.

- b. The General Manager or designee will periodically evaluate the District's existing debt and execute re-financings or prepayment (refunding) when economically beneficial. A refinancing may include the issuance of bonds or other obligations to refund existing bonds or other obligations. Debt may only be issued upon Board authorization and when the District has pledged appropriated sufficient funds to pay the obligation of principal and interest.

#### 4.2 Credit Rating and Quality

- a. The District will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising rate payer affordability. To enhance creditworthiness, the District is committed to prudent financial management, systematic capital planning, and long-term financial planning.
- b. 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.

4.3 Rebate Policy. The District will develop a system of reporting interest earnings and rebates that complies with the 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 Policy.

4.4 Joint Powers Authorities & Conduit Financing. For the purpose of debt financing, the District may participate in a joint powers authority with one or more other eligible entities pursuant to Section 6500 of the California Government Code if deemed advantageous and appropriate and approved by the Board.

### 5. DEBT MANAGEMENT

5.1 There are no specific provisions within the California Government Code that limit the amount of debt that can be issued by the District. The District will provide periodic reviews of its financial performance and evaluate its performance relative to the financial policies outlined in this Debt Policy. Necessary appropriations for annual debt service requirements will be routinely included in the District's budget.

5.2 The District will issue debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (1) projected revenues are sufficient to pay for the proposed debt service together with existing debt service covered by such existing revenues, or (2) additional revenues or savings have been identified as a source of repayment in an amount sufficient to pay for the proposed debt. The proceeds of any debt obligation shall be expended only for

the purpose for which it was authorized. Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future users. Borrowings by the District will be of a duration that does not exceed the projected useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life.

- 5.3 The District may issue debt on a fixed or variable interest rate basis. Fixed rate securities enhance budget predictability through the life of the securities and can be advantageous in a low interest rate environment. When appropriate, the District may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities. It may be appropriate to issue short-term or long-term variable rate debt to diversify the District's debt portfolio, reduce interest costs or provide interim funding for capital projects.
- 5.4 The proceeds of bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety of principal. The District's Debt Policy, Investment Policy, and the specific bond indentures govern objectives and criteria for investment of bond proceeds.
- 5.5 The General Manager or designee will monitor dedicated debt reserve fund balances, if any, and periodically review and recommend on the advisability of prepayment or refunding of related debt with the Board. A potential refunding will be assessed in combination with any new capital projects requiring financing, and the benefits of the refunding will be evaluated in relation to its costs and risks.

## 6. TYPES OF DEBT

- 6.1 The following types of debt are allowable under this Debt Policy, subject to applicable law including Government Code Section 8855(i)(1)(B), and the District's statutory authority to issue debt:
  - a. General obligation bonds
  - b. Commercial paper
  - c. Bond or grant anticipation notes
  - d. Lease revenue bonds, certificates of participation, and lease-purchase transactions
  - e. Other revenue bonds, including private placement obligations
  - f. Tax and revenue anticipation notes
  - g. Land-secured financings
  - h. Refunding obligations

- i. State revolving fund loans
- j. Lines of credit
- k. Letters of credit

6.2 The Board 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 to this Debt Policy.

7. METHOD OF SALE/ISSUANCE. The District will select the method of sale that best fits the type of bonds being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds, each requiring Board approval. A recommendation regarding the proposed method of sale shall be prepared by the General Manager or designee and provided to the Board prior to the proposed issuance.

7.1 Competitive Sale.

Bonds will be marketed to a number of prequalified underwriting firms. The underwriter is selected based on the best bid for the District's securities, i.e., highest price/lowest yield. The District will award the sale of the competitively sold bonds on a true interest cost basis. The District's General Manager or designee or Board President are hereby authorized to sign the bid form on behalf of the District fixing the interest rates on bonds sold on a competitive basis.

7.2 Negotiated Sale

The Board approves selection of the underwriter, or team of underwriters, of its securities in advance of the bond sale. The General Manager or designee works with the underwriter to bring the issue to market and negotiates all rates and terms of the sale. In advance of the debt issuance, the Board will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale will be conducted. The District's General Manager or designee or the Board President are hereby authorized to sign the bond purchase agreement on behalf of the District.

7.3 Direct Purchase/Private Placement

The District may elect to issue debt through a direct purchase with a bank counterparty or on a private placement basis. Such methods of sale shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance. Private placement financing shall also be considered if it is determined that access to the public market is limited and timing considerations require that a financing be completed.

8. CRITERIA FOR ISSUING DEBT

8.1 The General Manager or designee will evaluate the need for issuing debt, taking into consideration the anticipated capital program and long-term rate projections. The purpose and policy objectives of this Debt Policy will be factored into the

decision-making process. Projects will only be financed if the District has the ability to repay the debt and fund appropriate operations and maintenance costs for the asset. The repayment period for any debt must not exceed the anticipated useful life of assets and improvements funded by the debt.

- 8.2 If incurring debt is the best option for funding a particular project, the following criteria will be used to determine the optimum debt structure:
- a. The term, repayment structure, and interest rate mode must ensure other financial objectives are met.
  - b. The type of debt instrument will generally, but not necessarily, be optimized to achieve the lowest net present value cost. The District reserves the right to utilize a structuring that does not necessarily result in the lowest net present value cost, provided it aligns with other strategic objectives.
  - c. Any conditions for the debt must not place undue burdens or obligations on the District.
- 8.3 If the General Manager or designee determines the use of debt is appropriate, then a report will be provided to the Board that: (1) describes the intended use of the financial proceeds; (2) recommends a specific type of debt, including duration, type, interest rate characteristics, call features, credit enhancement, or financial derivatives to be used in the transaction; and (3) presents the impact of the bonds on the District's forecasted rates based on the anticipated maturity schedule.

## 9. REFINANCING/REFUNDING EXISTING DEBT

The District will periodically evaluate any outstanding bond issues for refunding opportunities and will bring it to the attention of the Board those opportunities that are in the District's interest. A debt refinancing or refunding will be deemed to be in the District's interest if the net present value savings as a percentage of the refunded par amount is at least 3% for any current refunding transaction and 5% for any advance refunding transaction. Reports to the Board shall describe anticipated savings and the structure of refunding and refunded debt, and any refunded transaction executed will be followed with a report on actual savings.

## 10. RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM

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 and are consistent with the rate and financial planning parameters specified in the District's long-term financial plans.

## 11. CREDIT ENHANCEMENTS

Credit enhancement may be used to improve or establish a credit rating on a District debt obligation. Types of credit enhancements include letters of credit, bond insurance, or surety policies. The District may consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus the cost for each case. Only when a clearly

demonstrable saving or other measurable advantage can be shown will enhancement be considered and authorized.

## 12. PROFESSIONAL SERVICES

12.1 Selection of Finance Team Members. The General Manager or designee will make recommendations for all financing team members, with the Board providing the final approval. Financing team members may include a financial advisor, bond counsel, disclosure counsel, and underwriter. Selection of those financing team members shall be in accordance with District policies.

### 12.2 Financial Advisor

The District may utilize a financial advisor to assist in its debt issuance and debt administration process as is deemed prudent and necessary by the General Manager and in compliance with Municipal Securities Rulemaking Board regulations. This assistance includes advising on the best type of debt instrument to use, the merits of the various methods of sale, and assessing whether refunding opportunities exist. The financial advisor will assist staff in selecting the rest of the finance team members, developing and coordinating the overall financial schedule, structuring the financing, and assisting with the review of the District's legal and disclosure documents.

### 12.3 Bond Counsel

The District will retain bond counsel for all debt issues. The General Manager or designee with input from General Counsel shall make a recommendation to the Board for approval of bond counsel for each issuance.

Bond counsel will prepare the necessary authorizing resolutions, agreements, and other documents necessary to execute the financing. The District's debt issuances will include a written opinion by 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.

### 12.4 Disclosure Counsel

For transactions that are publicly sold, the District will retain disclosure counsel to assist with preparing the required disclosure documents, including the Official Statement. The District may utilize a separate firm as disclosure counsel as it deems necessary. If cost effective and in the best interest of the District, bond counsel may also serve as disclosure counsel.

### 12.5 Underwriter

For negotiated sales, the District will generally select or pre-qualify underwriters through a competitive process. This process may include a request for proposal or qualifications to all firms considered appropriate for the underwriting of a particular issue or type of bond. The General Manager or designee will recommend the appropriate method to evaluate the underwriter submittals and then select or qualify firms on that basis. Final

underwriters will require Board approval. The District 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.

#### 12.6 Conflict of Interest Disclosure by Finance Team Members

All finance team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction. However, generally, no agreements will be permitted which could compromise the firm's ability to provide independent advice that is solely in the District's best interest to the extent the firm's role involves a duty to do so, or which could reasonably be perceived as a conflict of interest.

### 13. INTERNAL CONTROL PROCEDURES

Pursuant to Government Code 8855(i)(1)(E), the District will maintain all debt-related records according to the District's Document Retention Policy. The District will maintain internal controls to ensure compliance with the Debt Policy, all debt covenants and any applicable 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, and annual reporting to CDIAC.

### 14. INITIAL AND CONTINUING DISCLOSURE COMPLIANCE

The District will submit a Report of Proposed Debt Issuance to CDIAC that also certifies it has adopted a debt policy concerning the use of debt and that the proposed debt issuance is consistent with those policies no later than 30 days prior to the sale of any debt issue, in accordance with Government Code Section 8855(i). Not later than 21 days after the sale of the debt, the District will submit a Report of Final Sale to CDIAC with a copy of the final Official Statement or other required documents, in accordance with Government Code Section 8855(j). For any issue that has submitted a Report of Final Sale, the District will also submit an annual report covering its fiscal year no later than seven (7) months after the end of the reporting period, containing the information set forth in Government Code Section 8855(k). The District may engage a third-party consultant to ensure compliance with this ongoing reporting requirement.

The District will meet secondary disclosure requirements and remain in compliance with SEC Rule 15c2-12 addressing continuing disclosure obligations. The General Manager or designee shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The District will annually provide required financial information and operating data no later than the required due date, following the end of the District's fiscal year, and will provide timely notice of certain enumerated events with respect to the bonds, if material, as defined in the District's bond covenants. The District may engage a third-party consultant to ensure compliance with this ongoing reporting requirement.

15. DEBT MANAGEMENT POLICY REVIEW AND ADOPTION

The General Manager or designee shall have the authority to make non-substantive updates to this Policy as needed. Any updates regarding changes to law or SEC rules will be presented for approval and adoption by the Board. The Board may waive aspects of this policy in connection with individual financings if the Board determines such waiver to be in the best interest of the District.

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