

CARMICHAEL WATER DISTRICT

Directors' Policy Manual

POLICY TITLE: Debt Management, Bond Issuance and Post-Issuance Compliance

POLICY NUMBER: 9620

9620.10 This Debt Management, Bond Issuance and Post-Issuance Compliance Policy (Debt Policy) of the Carmichael Water District (District) was approved by the District's Board of Directors (Board) on April 16, 2018, in connection with the management, issuance and post-issuance compliance with respect to bonds, certificates of participation and other debt (Bonds) of the District. The Debt Policy may be amended by the Board as it deems appropriate from time to time in connection with the Bonds of the District. Any approval of Bonds by the Board that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

9620.20 Policies Required Pursuant to Government Code and CDLAC Regulations (Section 9620.20)

Section 9620.20 of this Debt Policy is intended to comply with Government Code Section 8855(i) and Section 5031 of Division 9.5 of Title 4 of the California Code of Regulations (the "CDLAC Regulations"), and shall govern all debt undertaken by the District.

- 9620.21** The District hereby recognizes that a fiscally prudent debt policy is required in order to:
- a. Maintain the District's sound financial position.
 - b. Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
 - c. Protect the District's creditworthiness.
 - d. Ensure that all debt is structured in order to protect both current and future ratepayers and constituents of the District.
 - e. Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.

9620.22 Policies: Purposes for Which Debt May Be Issued

9620.221 Long-Term Debt: Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District.

- a. Long-term debt financings are appropriate when the following conditions exist:
 - When the project to be financed is necessary or desirable to provide services of the District.
 - When the project to be financed will provide benefit to ratepayers or constituents over multiple years.
 - When total debt does not constitute an unreasonable burden to the District and its ratepayers.

- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
- b. Long-term debt financing will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
- c. The District may use long-term debt financings subject to the following conditions:
- The project to be financed must be approved by the Board.
 - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
 - The District estimates that sufficient revenues will be available to service the debt through its maturity.
 - The District determines that the issuance of the debt will comply with the applicable state and federal law.

9620.222 Short-Term Debt: Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain steady cash flow. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

9620.23 Types of Debt: For purposes of Section 9620.20 of this Debt Policy, "debt" shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, installment purchases or sales, or other financing obligations, but the use of such term in this Section 9620.20 shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

9620.231 The following types of debt are allowable under this Debt Policy:

- a. General obligation bonds
- b. Bond or grant anticipation notes
- c. Lease revenue bonds, certificates of participation, installment purchase or sale agreements, and lease-purchase transactions
- d. Other revenue bonds
- e. Tax and revenue anticipation notes
- f. 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.

9620.232 The District 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 of this Debt Policy. Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

9620.24 Relationship of Debt to Capital Improvement Program and Budget:

9620.241 The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in Section 9620.20 of this policy and to implement policy

decisions incorporated in the District's capital budget and the capital improvement plan.

9620.242 The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

9620.243 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.

9620.244 The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

9620.245 The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

9620.25 Policy Goals Related to Planning Goals and Objectives:

9620.251 The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budget.

9620.252 It is a policy goal of the District to protect ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

9620.253 The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related assessments, rates and charges.

9620.254 When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service saving equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

9620.26 Internal Control Procedures:

9620.261 When issuing debt, in addition to complying with the terms of Section 9620.20 of this policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

9620.262 The District will periodically review the requirements of and will remain in compliance with the following:

- a. Any continuing disclosure undertakings under Securities and Exchange Commission (SEC) Rule 15c2-12;

- b. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues; and
- c. The District's investment policies as they relate to the investment of bond proceeds.

9620.263 It is the policy of the District to ensure that proceeds of debt are spend only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds. The District will submit a requisition only after obtaining the signature of the General Manager or Assistant General Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the General Manager or Assistant General Manager shall retain records of all expenditures of proceeds through the final payment date for the debt.

9620.30 Policies Required Pursuant to CDLAC Regulations (Section 9620.30)

9620.31 Bond Issuance Policies

9620.311 The additional provisions of Section 9620.30 of this policy are intended to comply with the CDLAC Regulations, and, in addition to the provisions of Section 9620.20 of this policy, above, shall govern all debt undertaken by the District for which an allocation of the state's private activity bond volume limit is required.

- a. Method of Sale: The District may sell its Bonds by competitive sale or negotiate sale and, if by negotiated sale, by public offering, limited public offering or private placement, all within the discretion of the General Manager, subject to approval by the Board prior to such sale.
- b. Underwriter or Lender Selection: For each issue of Bonds, the District may select any responsible bond underwriter or lender within the discretion of the General Manager, subject to approval by the Board prior to the Bond sale. Each underwriter or lender selection shall be in full compliance with all laws, regulations and District policies concerning conflicts of interest and public contracting.
- c. Credit Enhancement: For each issue of Bonds, the District may select any method of credit enhancement authorized under applicable laws, if such credit enhancement results in lower overall borrowing costs or access to debt markets that would otherwise be impossible or impracticable. Each credit enhancement shall be in full compliance with all laws, regulations and District polices concerning conflicts of interest and public contracting.
- d. Selection of Outside Counsel and Other Service Providers: For each issues of Bonds, the District may select any responsible outside bond counsel and disclosure counsel with demonstrated experience in the applicable field of practice, within the discretion of the General Manager, subject of approval by the Board prior to the sale. Each outside counsel selection shall be in full compliance with all laws, regulations and District policies concerning conflicts of interest and public contracting.
- e. Interest Rate Limitations: The District's Bonds shall bear interest at fixed rates, unless the General Manager, subject to approval by the Board, determines that it is in the District's best interest to issue Bonds bearing interest at variable rates. The District may enter into interest rate hedging transactions if the General Manager, subject to approval by the Board,

determines that it is in the District's best interest to do so. Interest on Bonds and any interest rate hedging transactions shall be in compliance with all applicable laws.

f. Disclosure Requirements: The District shall comply with all federal and state laws concerning disclosures (initial and continuing) required to be made in connection with the sale of Bonds. The General Manager and the Assistant General Manager shall retain such outside counsel and other service providers as they may deem necessary to carry out their disclosure duties.

g. Limitations on Bond Purchasers: The District may sell its Bonds to any purchasers deemed suitable by the underwriter or lender.

h. Bond Denominations: The District may sell its Bonds in any denomination deemed suitable by the underwriter or lender.

i. Uses of Bond Proceeds: The proceeds of the District's Bonds may be used for any lawful purpose including, without limitation, capital expenditures or reimbursement thereof, capitalized interest, costs of issuance, including underwriter's discount, credit enhancement costs, and bond reserves.

9620.32 Post-Issuance Compliance Policies

9620.321 Post-Issuance Tax Compliance: For each issue of Bonds, the General Manager and the Assistant General Manager shall require outside counsel to prepare post-issuance tax compliance policies appropriate to the issue and shall review such policies with outside counsel. The General Manager and the Assistant General Manager shall be responsible to ensure compliance with such policies.

a. Continuing Disclosure: At or prior to the issuance of each issue of Bonds, the General Manager, the Assistant General Manager and any designees shall review the related continuing disclosure undertaking, if any, made by the District under SEC Rule 15c2-12. The General Manager and the Assistant General Manager shall be responsible for ensuring compliance with all material provisions of each such undertaking. The General Manager or the Assistant General Manager may engage such outside counsel and professional services as they may deem necessary or convenient to properly and efficiently carry out the District's duties under any such undertaking with the goal of avoiding undue interference with the general management of the District's affairs.

b. Document Retention: For each issue of Bonds, the District shall retain copies of the final bond transcript prepared by bond counsel for at least six years beyond the retirement of such Bonds.

c. CDLAC Requirements: At least annually, the General Manager, the Assistant General Manager or their designee shall review the ongoing requirements, if any, contained in each CDLAC resolution allocating a portion of the state's private activity bond volume limit to the District. If any noncompliance with any such requirements is discovered, the District shall report such noncompliance to CDLAC promptly, together with a description of the actions taken and to be taken to remedy such noncompliance.