

CARMEL AREA WASTEWATER DISTRICT – DEBT MANAGEMENT POLICY

Subject: Debt Management Policy	Number:
Effective Date: March 30, 2023	Prepared by: Administration
	Approved by: Board of Directors

I. Purpose

The purpose of this Debt Management Policy (“Policy”) is to organize and formalize debt issuance and management related policies and procedures for the Carmel Area Wastewater District (the “District”). The debt policies and procedures of the District are subject to and limited by applicable provisions of the State of California (“State”) and federal law and to prudent debt management principles.

II. Scope

This Policy is intended to comply with State Government Code Section 8855(i) which became effective on January 1, 2017, and will apply to all future debt considerations and issuances by the District and any entities for which the Board of Directors of the District (“Board”) acts as the legislative body.

III. Objective

The primary objectives of the District’s debt and financing related activities are to:

- Maintain cost-effective access to the capital markets through prudent fiscal management policies and practices;
- Judicious debt service commitments will be made through effective planning and cash management;
- Ensure compliance with all applicable federal and state securities laws;
- Achieve the highest practical credit ratings within the context of the District’s financing needs and financing capabilities;
- Ensure that all debt is structures in order to protect both current and future taxpayers, ratepayers and constituents of the District; and

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- Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.

IV. Assignment of Responsibility

This Policy will be reviewed and updated periodically as necessary. Any changes to the Policy will be approved by the Board of Directors. The Board of Directors is responsible for overall policy direction of this Policy, as well as the authorization of each debt financing. The General Manager will be responsible for implementation of the Policy, as well as its day-to-day administration.

The District recognizes that, while this Policy provides guidance and structure for the decisions and management of the District's debt, changes in capital markets, District programs and other unforeseen circumstances may arise that are not addressed in this Policy. In these cases, flexibility is appropriate and modifications or exceptions to this Policy may be necessary to achieve the District's goals. Minor modifications or exceptions may be made by the General Manager without approval by the Board of Directors. Significant modifications or exceptions will be approved by the Board of Directors.

V. Debt Issuance

a. Purpose of Debt Issuance

The District's debt management program will consider debt issuance in cases where public policy, generational equity and economic efficiency provide a benefit to the residents of the District.

The District will utilize debt obligations and will give due consideration to all available funding sources, including available cash reserves, available current revenues, potential future revenue sources, potential grants, and all other financing sources legally available to be used for such purposes.

Bond proceeds are expected to fund major, non-recurring expenditures/expenses, including but not limited to: the financing of costs

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related to capital project planning and design, environmental, land acquisition, real property, and equipment acquisition, the construction or renovation of buildings and permanent structure, financing costs related to debt issuance, capitalized interest, necessary or financially prudent debt service reserves, or other costs as permitted by law. Refunding or refinancing existing debt obligations in order to produce debt service savings or to realize the benefits of a debt restructuring are acceptable uses of bond proceeds.

b. Types of Debt

The District will evaluate the use of appropriate financing tools available as permitted by the State Constitution and applicable State statutes. These financing tools will be considered in order to secure the most cost advantageous financing available while limiting the District's risk exposure. Types of debt may include, but are not limited to:

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- Wastewater revenue bonds or certificates of participation
- Land-secured financing, 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
- Lease revenue bonds or certificates of participation
- Refunding/refinancing existing debt obligations
- Short term notes, including notes to provide financing for the District's operational cash flows
- Lease-purchase and installment sale transactions
- Letters of credit and revolving credit

The District will also consider the advantages of a negotiated or competitive bond sale and recognizes that a standard, all-purpose approach to debt financing does not serve the best interest of the District. The District will consider the unique combination of factors such as the type of debt needed, funding stream, market conditions and District programs to structure each debt issuance.

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c. Debt Structuring Practices

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%. Capitalized interest and deferral of principal may be considered but not required during construction of a debt-funded project. Fixed rate debt is preferred but the District may consider the appropriateness of variable rate debt when considering financial market conditions and risk factors.

d. Financing Options

In general, debt may be issued to fund new projects or to refinance existing debt.

- New Debt:

New long-term debt issuances are used to generate funding for capital projects. These funds will be used for necessary land acquisitions, capital construction, equipment, related financing costs, and other necessary costs that would deliver a project for the District.

- Refinancing Existing Debt:

A periodic review of the District's outstanding debt will be undertaken by the Administration Department of the District to determine refunding opportunities.

Refunding bonds are issued to retire all or a portion of an outstanding bond issue, typically to secure lower interest rates and to reduce overall debt service. Alternatively, some refunding is undertaken for reasons other than to achieve cost savings, such as to restructure debt service payments, to change the type of debt instruments being used, or to eliminate undesirable covenants.

A present value savings analysis will be prepared to identify the economic effects of any refunding being considered by the District.

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The savings from any refunding candidate shall generally be at least 3% of the refunded principal amount, net of all transaction expenses. This 3% target may be waived by the District upon finding that such a refunding is in the District's best overall financial interest and shall not be applicable for refunding transactions that are not solely undertaken to achieve cost savings.

e. Integration with District Capital Improvement Plan and Budgets

The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. In addition, the District maintain multi-year Capital Improvement Program ("CIP") to establish and monitor priorities for projects. If debt is selected as a funding mechanism for a capital purpose, the District would integrate its debt issuances with the goals of the CIP by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes and in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund budget.

Debt issuances will be for the purposes stated in this Policy and to implement policy decisions incorporated through the District's annual operations budget as well as the CIP.

VI. Policy Goals

The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. It is a policy goal of the District to protect taxpayers, 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.

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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 taxes, assessments, rates and charges.

VII. Consultants

The District will, when appropriate and given the specific requirements of the financing, secure the services of independent municipal advisors, underwriters, disclosure counsel, bond counsel, appraisal services and other service providers.

VIII. Investment of Bond Proceeds

Bond proceeds will be invested according to the District's investment policy or the indenture of fiscal agent management, if applicable. The District will not invest bond proceeds derivatives unless the District adopts a separate comprehensive derivatives policy.

IX. Ongoing Administration of Internal Controls

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

The District will accurately account for all debt-related activity to ensure that debt proceeds are directed to their intended use. These records will also be designed to ensure that the District maintains compliance with all debt covenants, as well as State and federal laws. The District will maintain a system of reporting interest earnings that relates to and complies with Internal Revenue Code requirements relating to rebate, yield limits and arbitrage.

X. Compliance

a. Initial Disclosure

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In accordance with California Government Code Section 8855 (“Section 8855”), the District will submit a report of final sale to the California Debt and Investment Advisory Commission, not later than 21 days following the sale of debt.

A copy of the final official statement shall accompany the report of final sale for publicly offered debt. In the event that the official statement has not yet been finalized, the District will provide documentation to satisfy the requirements of Section 8855, as necessary.

b. Ongoing Disclosure

The District will maintain compliance with the regulations set forth in Section 8855 and Rule 15(c)2-12 under the Securities Exchange Act of 1934.

The District will file an annual report; and annual financial information with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (EMMA). The reports will be made timely and in accordance with the District’s continuing disclosure undertakings.

The District will submit an annual report for any issue of debt whose final sale occurred on or after January 21, 2017. The annual report will cover the reporting period July 1st through June 30th and will be submitted no later than seven months following the end of the reporting period.

XI. Adoption by Legislative Body

In accordance with Section 8855, the District adopted this Policy. In implementing this Policy from time to time, interpretations and variations may be made at the discretion of the General Manager or Principal Accountant, without approval of the Board of Directors, as determined by such person to be in the best interests of the District or its constituents, and/or for purposes of administrative efficiency or convenience or to comply with new applicable federal, State, or local law.