The Santa Rosa Regional Resources Authority

Debt Management Policy

Adopted June 13, 2017

Statement of Debt Management Policy

Section I. Introduction

Purpose and Overview

In its publication entitled Best Practice Debt Management Policy, the Government Finance Officers Association (GFOA) states that debt management policies are written guidelines, allowances, and restrictions that guide debt issuance practices of Board adopted issuance processes, management of a debt portfolio, and adherence to state and federal laws and regulations. A debt management policy should 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. This Debt Management Policy (the "Policy") of the Santa Rosa Regional Resources Authority (the "Authority") as set forth herein provides a set of comprehensive guidelines for the issuance and management of the Authority's debt portfolio. Adherence to the policy is essential to ensure that the Authority maintains a diversified debt portfolio that supports its financing needs and minimizes the Authority's cost of funding capital. The Board of Directors of the Authority (the "Board") may waive any of the provisions of this Policy.2

Roles and Responsibilities

The Authority's Administrator– The primary responsibility for debt management rests with the Administrator. The Administrator shall:

- Provide for the issuance of Authority debt at the lowest possible cost and risk;
- Determine the available debt capacity of the Authority;
- Provide for the issuance of Authority debt at appropriate intervals and in reasonable amounts, as required to fund approved capital expenditures;
- Recommend to the Board the method and manner of sale of Authority debt;
- Monitor opportunities to refund debt and recommend any such refunding as appropriate to reduce costs or to achieve other policy objectives;
- Comply with all Internal Revenue Service ("IRS"), Municipal Securities Rulemaking Board ("MSRB"), and Securities and Exchange Commission ("SEC") rules and regulations governing the issuance of debt;
- Maintain a current database with all outstanding debt;
- Provide for the timely payment of principal and interest on all debt;
- Comply with all terms and conditions, and disclosure required by the legal documents governing the debt issued;
- Submit to the Board all recommendations to issue debt in accordance with this Policy;
- Distribute to appropriate repositories information regarding the Authority's financial condition and affairs at such times and in the form required by law, regulation and general practice;
- Provide for the frequent distribution of pertinent information to the rating agencies; and
- Apply and promote prudent fiscal practices.

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Per its formation agreements, one of the Authority's member agencies is appointed as its Administrative Agency and Operator of its facilities, and is to assign a staff member to serve as its Administrative Official ("Administrator"). Currently, Rancho California Water District serves as the Authority's appointed Administrative Agency and Operator and has appointed its Director of Finance/Treasurer as the Administrator. The staff of the agency appointed as the Administrative Agency and Operator of the Authority are hereafter referred to as the "Authority's" staff in that they serve in that role for the Authority. In order to comply with the following internal controls, the Administrator, the Authority's Chief Engineer and applicable Project Manager shall share responsibility to assure that disbursements are made only after each request for disbursement is substantiated with appropriate invoices, requisitions and other supporting documentation. Each of the aforementioned shall thoroughly review any request for disbursement and may request further documentation as may be deemed appropriate.

- To ensure that proceeds of any debt issued, in accordance with its governing documents and this Policy, the following internal controls shall be implemented: (1) no disbursements shall be made without the written approval of the Administrator's Director of Finance/Treasurer and Assistant General Manager; (2) The draw request shall be provided to the Administrator by the project engineer, or construction project manager, as applicable; and (3) approval shall only be provided when the Administrator is in receipt of an appropriate certification from the construction project manager with supporting invoices from suppliers and/or contractors evidencing appropriate expenses in connection with the project.
- A written report that shows the expenditures of debt proceeds by project shall be provided to the Authority's Board of Directors annually.
- In the case of an issue of bonds, the proceeds of which will be used by a governmental entity other than the Authority, the Authority may rely upon a certification by such other governmental entity that it has adopted the policies described in Senate Bill No. 1029 ("SB 1029"), an amendment to Section 8855 of the Government Code to require additional reporting on state and local outstanding debt, until fully repaid or redeemed. SB 1029 requires the submission of an annual report containing specified information about debt issued and the use of debt proceeds including a certification by the issuer that it has adopted local debt policies and that the contemplated debt issuance is consistent with those local debt policies.

Section II. Legal Governing Principles

In the issuance and management of debt, the Authority shall comply with all legal constraints and conditions imposed by federal, state and local law. The following section highlights the key governing documents and certain debt limitations.

Governing Law

Joint Powers Act – The Authority is a joint exercise of powers agency organized under the provisions of California law governing the joint exercise of powers, being Chapter Division 7, Title 1 of the Government Code of the State of California. The JPA Act gives the Authority the right contract, construct works, and operate the SRWRF and to incur indebtedness. The Authority shall comply with all constraints of the JPA Act.

Federal Tax Law – The Authority shall issue and manage debt in accordance with the limitations and constraints imposed by federal tax law, to maximize its ability to sell tax-exempt debt. Such constraints include, but are not limited to, private activity tests, review of eligible projects, spend-down tests, and arbitrage rebate limitations.

Securities Law – The Authority shall comply with the requirements of federal and state securities laws in offering Authority debt and the Authority shall comply with securities law requirements in providing ongoing disclosure to the securities markets.

Governing Documents - The Authority was created under a Joint Exercise of Powers Agreement (the "JPA Agreement") dated as of November 12, 2015 by and among Elsinore Valley Municipal Water District, ("EVMWD"), Rancho California Water District ("RCWD") and Western Municipal Water District ("WMWD"). Collectively EVMWD, RCWD and WMWD are herein referred to as the Member Agencies. The JPA Agreement establishes the Authority to be responsible for the collection, transmission, treatment and disposal of wastewater from it Member Agencies relating to the flows to the Santa Rosa Water Reclamation Facility (the "SRWRF"). The Authority shall comply with all constraints of the JPA Agreement.

Permitted Debt by Type

The Authority may legally issue both short-term and long-term debt, using the debt instruments described below. The Administrator, in consultation with the Authority's General Counsel, Bond Counsel, and Financial Advisor shall determine the most appropriate instrument for a proposed bond sale. Board action and not voter approval is required for the Authority to incur the below named forms of indebtedness.

JPA Revenue Bonds –The Authority may obtain financing through the issuance of revenue bonds payable from amounts paid by the Member Agencies to the Authority under a lease, installment sale agreement, or contract of indebtedness.

Lines of Credit - The Authority may enter into financing arrangements providing for a source of funds that can be readily accessed by the Authority for capital or operational needs.

Commercial Paper – The Authority may issue short-term revenue certificates, including commercial paper and extendable commercial paper. The Authority's commercial paper shall be secured by amounts payable by the Member Agencies to the Authority under a lease, installment sale agreement, or a contract of indebtedness.

Variable Rate Debt – The Authority is authorized to issue variable rate debt including, but not limited to, public market indexed notes, indexed notes or loans placed directly with financial institutions, and other alternative variable rate and market access products as well as traditional variable rate demand obligations backed by bank liquidity facilities. Prior to the issuance of variable rate debt, the savings and other possible advantages compared to a fixed rate borrowing will be evaluated and a comparative analysis presented to the Board as part of the approval process.

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Refunding Revenue Bonds – The Authority is authorized to issue refunding revenue bonds to refund outstanding Authority indebtedness pursuant to the JPA Act or the State of California local agency refunding revenue bond law.

Loans – The Authority is authorized to enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source, or sources of repayment.

Limitations on Debt Issuance

Short-Term Debt – The Authority's short-term debt shall not exceed 30%of its total debt at the time of issuance. The calculation of short-term debt shall include variable rate demand obligations, the authorized amount of commercial paper, any notes/bonds with a maturity equal to or less than five years, and any variable rate debt.

Senior Lien Long-Term Debt – The Authority's senior lien long-term debt, for which revenues are pledged, shall be limited to that amount for which current and projected net revenues generated by each Member Agency can achieve a senior lien debt service coverage in compliance with each Member Agency's applicable governing documents. The calculation of debt service shall not include other indebtedness of each Member Agency to which revenue sources other than pledged water and wastewater revenues, as defined in their respective governing legal documents for such debt, is pledged.

Subordinate Lien Long-Term Debt - The Authority's subordinate lien debt, for which revenues are pledged, shall be limited to that amount for which current and projected net revenues generated by each Member Agency can achieve a subordinate lien debt service coverage of at least 100 percent.

Purpose for Borrowing

The Authority shall issue short-term or long term, debt solely for the purpose of financing the cost of design, acquisition, and/or construction of wastewater system improvements in furtherance of the Authority's Capital Improvement Program ("CIP").

Ethical Standards Governing Conduct

Members of the Authority, the Board and its consultants, service providers, and underwriters shall adhere to standards of conduct as stipulated by the California Political Reform Act, as applicable. All debt financing participants shall maintain the highest standards of professional conduct at all times, and will:

- Follow MSRB Rules, including Rule G-37, at all times;
- Assist the Authority staff in achieving its goals and objectives as defined in this Debt Management Policy; and
- Make cooperation with the Authority staff their highest priority.

Section III. Integration of Capital Planning and Debt Activities

Evaluating Capital Improvement Program Spending

The Authority shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition. To that end, the Administrator shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows;
- Historic and projected capital expenditures;
- Historic and projected operating costs;
- Historic and projected fund balances, including the Operating Fund, the Rate Stabilization Fund, (if any), Pay-As-You-Go Fund, Debt Proceeds Fund, and Debt Service Reserve Fund, if any,
- Historic and projected debt service coverage;
- The most efficient mix of funding sources (long-term debt; short-term debt, and cash);
- Projected revenue requirements; and
- Projected rates and charges.

Section IV. Procurement and Evaluation of Professional Services

Appointment of Service Providers – The Administrator shall solicit from time-to-time bids, quotes or proposals, including sole source proposals, for the following services on an as needed basis to ensure the Authority is receiving the necessary level of service at competitive market rates:

- Financial Advisor – Service provider that ensures the Authority complies with all financial management procedures and policies and ensures successful closing for bond transactions. While serving as the Authority's municipal or financial advisor, a firm may not also engage in the underwriting of the Authority bond issue for which that firm acts as municipal or financial advisor. A firm may not switch roles (i.e., from municipal or financial advisor to underwriter) after a financial transaction has begun.
- Bond Counsel – Service provider that drafts appropriate documentation to ensure successful and timely closing and create valid and legally binding security for bond issues, and provide appropriate advice and take appropriate actions to ensure legal validity of bond issues under state and federal laws as applicable.

- Disclosure Counsel – Service provider that drafts offering documentation in connection with the sale of debt to ensure compliance with all federal and state securities laws and regulations; provides appropriate legal opinions in in connection with the offering documentation under state and federal laws as applicable.

Nothing in this Policy shall prevent the Authority from using the same law firm from acting as both Bond and Disclosure Counsel. In the event the Administrator solicits proposals, selection shall be based upon qualifications, and experience and fees so as to provide the most value to the Authority for the level of service and expertise provided at or under competitive market rates.

Section V. Transaction-Specific Policies

Method of Sale for Publically Offered Debt

The Authority will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

Competitive Bid Method - When necessary to minimize the costs and risks of any Authority borrowing, the Administrator may submit to the Board a request for approval to sell bonds on a competitive basis. Such bids may take the form of hand-delivered or electronically transmitted offers to purchase the bonds. Authority debt issued on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the Authority provided the bid conforms to the official notice of sale.

Negotiated Bid Method – A negotiated bond issue will provide for the sale of debt by negotiating the terms and conditions of the sale, including price, interest rates, credit facilities, underwriter or remarketing fees, and commissions. Examples of such sales include:

- Variable rate demand obligations;
- An issue of debt so large that the number of potential bidders would be too limited to provide the Authority with truly competitive bids;
- An issue requiring the ability to react quickly to sudden changes in interest rates (e.g. refunding bonds);
- An issue requiring intensive marketing efforts to establish investor acceptance;
- An issue of debt with specialized distribution requirements; and
- An issue of debt sold during a period of extreme market disruption or volatility.

If bonds are sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees, and underwriting spreads. The Authority, with the assistance of its Municipal or Financial Advisor, shall evaluate the terms offered by the underwriter(s). Guidelines with respect to price, interest rates, fees, and underwriting spreads shall be based on prevailing terms and conditions in the marketplace for comparable issuers.

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If more than one underwriter is included in the negotiated sale of debt, the Authority shall establish appropriate levels of liability, participation and priority of orders. Such levels shall be based upon Authority policy with regards to the underwriting responsibility among the team members (Authority Staff and Counsel, Municipal or Financial Advisor and Bond and Disclosure Counsel), the desired allocation of total fees, and the desired distribution of bonds. Guidelines for establishing liability, participation, and priority of orders shall be based on prevailing terms and conditions in the marketplace for comparable issuers.

The Authority shall, with the assistance of its Municipal or Financial Advisor, oversee the bond allocation process. The bond allocation process shall be managed by the lead underwriter, with the following requirements:

- The bonds are allocated fairly among members of the underwriter(s), consistent with the previously negotiated terms and conditions;
- The allocation process complies with all MSRB regulations governing order priorities and allocations;
- The lead underwriter shall submit to the Administrator a complete and timely account of all orders, allocations, and underwriting activities with the investor names identified as appropriate.

The Administrator shall require a post-sale analysis and reporting for each negotiated bond sale. The lead underwriter shall perform such analysis. A post-sale analysis will include, but not be limited to:

- Summary of the pricing, including copies of the actual pricing wires;
- Results of comparable bond sales in the market at the time of the Authority's pricing;
- Detailed information on orders and allocation of bonds, by underwriting firm;
- Detailed information on final designations earned by each underwriter; and
- Summary of total compensation received by each underwriter.

<u>Structural Elements</u>

Pledge of Revenues – The Authority's pledge of revenues shall be determined for each debt issue depending upon the debt instrument:

- *Revenue Bonds* of the Authority shall be repaid from revenues received from the Member Agencies, as defined in the governing documents related to the applicable revenue bonds.

Maturity – The Authority may issue tax-exempt debt with an average equal to 100% of the useful life of the assets; if warranted the Authority may issue tax-exempt debt with an average equal to 120% of the average useful life of the assets. The final maturity of the debt should be no longer than 30 years. Factors to be considered when determining the final maturity of debt include: the average useful life of the assets being financed, relative level of interest rates, intergenerational equity and the year-to-year differential in interest rates. In the event of debt refinancing, the final maturities shall not be extended unless specifically approved by the Board.

Maturity Structure – The Authority's long-term debt may include serial and term bonds. Other maturity structures may also be considered if they are consistent with prudent financial management practices.

Coupon Structure – Debt may include par, discount and premium. Discount and premium bonds must be demonstrated to be advantageous relative to par bond structures taking into consideration market conditions and opportunities. For variable rate debt, the variable rate may be based on one of a number of commonly used interest rate indices and the index will be determined at the time of pricing.

Debt Service Structure – Debt service may be structured primarily on an approximate level (combined annual principal and interest) basis. Certain individual bond issues, such as refunding bonds, may have debt service that is not level. However, on an aggregate basis, preference should be given for debt service to be structured primarily on a level basis unless other circumstantial factors apply. In all cases, the proposed form of structure should be presented to the Board as part of its review of the financing prior to approval.

Redemption Features – In order to preserve flexibility and refunding opportunities, Authority debt will generally be issued with call provisions. The Authority may consider calls that are shorter than traditional and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the Authority will evaluate the efficiency of call provision alternatives.

Credit Enhancement – The Authority shall competitively procure credit enhancement for a sale of bonds if the Administrator, in consultation with the Municipal or Financial Advisor and the lead underwriter, determines that it is cost effective to do so.

Senior/Subordinate Lien – The Authority may utilize both a senior and a subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on wastewater rates of the Member Agencies, and marketing considerations.

Debt Service Reserve Funds – The Authority shall provide for debt service reserve funds to secure Authority debt when necessary but may elect to issue debt without a debt service reserve.

Private Placements/Direct Loans - In the event the Authority chooses to proceed with a direct loan, or private placement of any form of debt, the Authority will issue a request for proposals seeking bids from responsible and credit-worthy financial institutions. The request for bids shall include a description of the project and terms and conditions of the financing in accordance with prudent financial and industry standards. The Authority may award solely based upon true-interest cost but may take into consideration call features, debt service structure and the requirement of any reserve fund prior to making any award.

Section VI. Communication and Disclosure

Rating Agencies

The Authority shall maintain the credit ratings on its publicly offered debt through prudent fiscal management and consistent communications with the rating analysts. The Administrator shall manage relationships with the rating analysts assigned to the Authority's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies may include one or more of the following:

- Full disclosure of the financial condition of the Authority on an as needed basis, at a minimum through the timely disclosure of the Audited Financial Statements and any continuing disclosure reporting;
- A formal presentation, as it becomes necessary to the rating agencies, covering economic, financial, operational, and other issues that impact the Authority's credit;
- Timely disclosure of major financial events that impact the Authority's credit;
- Timely dissemination of the Audited Financial Statements, following its acceptance by the Authority's Board;
- Full and timely distribution of any documents pertaining to the sale of bonds; and
- Periodic tours of the SRWRF, as appropriate.

Bond Insurers

The Administrator shall manage relationships with the bond insurers, to the extent any debt is so insured, by providing appropriate information. Communication with other bond insurers shall be undertaken when the Administrator, with the assistance of the Authority's Municipal or Financial Advisor, determines that credit enhancement is cost effective for a proposed bond issue.

General

Disclosure Reports – The Authority shall make disclosure reports readily available to institutional investors, rating agencies and credit enhancers who have specific analysts assigned to review the Authority's credit.

Website – The Authority shall use its website as a tool for providing timely information regarding its debt issuances.

Section VII. Refunding Policies

The Authority shall strive to refinance debt to maximize savings and minimize the cost of funds as market opportunities arise. A net present value analysis will be prepared that identifies the economic effects of any refunding to be proposed to the Board. The Authority shall target a 3% net present value savings for Current Refunding transactions and 5% for Advanced Refunding transactions. A Current Refunding transaction is one which closes not more than ninety (90) days prior to the call date of the refunded debt. An Advance Refunding transaction is one which closes more than (90) days prior to the call date of the refunded debt

Upon the advice of the Administrator, with the assistance of the Municipal or Financial Advisor and Bond Counsel, the Authority will consider undertaking refundings for other than economic purposes, such as to restructure debt, change the type of debt instruments being used, or to retire a bond issue and indenture in order to remove undesirable covenants; such refunding transactions do not need to achieve any net present value savings.

Savings Thresholds – The minimum savings thresholds listed above have been established to help guide the economic analysis of refunding bonds. The minimum savings guidelines are applicable on an overall basis and are expressed as a percentage of refunded bond par calculated by dividing the expected net present value savings generated by the proposed refunding by the par amount of refunded bonds.

In completing a refunding for net present value savings, the Administrator, with the advice of the Municipal or Financial Advisor, may take the following into consideration.

Coupon on Refunded Bond – The Administrator may take into consideration whether the coupon on the refunded bond is significantly higher or lower than the most common outstanding bond coupons of approximately 5%.

General Interest Rate Environment – The Administrator may take into consideration whether the available refunding bond interest rates are generally high or generally low relative to long-term averages of historical rates.

General Interest Rate Outlook – The Administrator may take into consideration the general outlook for future interest rates, as derived from economic forecasts, market forecasts, implied forward rates, or other sources.

Debt Management Considerations – The Administrator may take into consideration debt management issues such as cost and staff efficiencies associated with combining multiple refunding bond issues or combining refunding and new money bond issues.

Call Date – The Administrator may take into consideration the amount of time between the pricing/closing date of the refunding debt and the call date of the debt to be refunded.

Final Maturity Date – The Administrator may take into consideration the amount of time remaining until the final maturity of the debt to be refunded.

Section VIII. Reinvestment of Proceeds

General – The Authority shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds, as well as restrictions on the time period over which some bond proceeds may be invested. To the extent that a bond issue is credit enhanced, the Authority shall adhere to the investment guidelines of the credit enhancement provider.

Requirements of Indenture – The Authority will comply with all terms and conditions of the appropriate legal documents related to the debt. Such limitations shall include, but not be limited to those included in the Permitted Investments definition in the indenture.

Section IX. Creation and Maintenance of Funds

The Authority maintains a number of different funds integral to the long-range financial planning process. Each of these funds is held for a specific purpose and can generally be categorized as either an operating, capital or debt reserve fund. The Authority will comply with all requirements and limitations created under an applicable Reserve Policy then in place.

Section X. Compliance

Arbitrage Liability Management

The Authority shall minimize the cost of arbitrage rebate and yield restrictions while strictly complying with tax law. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the Authority shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations. The Authority shall contract with a qualified third-party for preparation of the arbitrage rebate calculation.

The Authority shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue. Investment may be pooled for financial accounting purposes and for investment purposes. When investment of bond proceeds are co-mingled with other investments, the Authority shall adhere to IRS rules on accounting allocations.

Post-Issuance Tax Compliance

The Authority will adopt post-issuance tax compliance procedures for each debt issuance as needed to maintain the tax-exempt status of Authority debt obligations or to maintain eligibility for direct pay subsidy payments, as applicable.

Continuing Disclosure

The Authority shall comply with the requirements of each Continuing Disclosure Certificate entered into at the time of a sale of bonds. Annual information provided by the Authority shall mirror certain selected information in any Authority Official Statement at the time of a primary offering. Annual financial information will be sent by the Authority or its designated consultant, within nine months of the Authority's fiscal year end, to the MSRB or other repositories designated by the SEC and to the State Information Depository (SID), if one exists. This shall include:

- Audited Financial Statements of the Authority; and
- Updated tables from the Official Statement, as detailed in the Continuing Disclosure Certificate.

In addition to annual disclosure, the Authority shall provide ongoing information about certain enumerated events, as defined by regulation, to the MSRB or other repositories designated by the SEC and to any SID.

The Authority shall engage a firm to assist it in ensuring timely completion and filing of annual reports and in identifying, and making timely filings with respect to, the occurrence of reportable enumerated events.

Legal Covenants

The Authority shall comply with all covenants and conditions contained in governing law and any legal documents entered into at the time of a bond offering.

Section XI. Debt Database Management

The Authority shall maintain complete information on its outstanding debt portfolio, in a spreadsheet or database program format. The information in the database shall include, but not be limited to, the following:

- Issue Name
- Initial Issue Par Amount
- Dated Date of the Issue
- Principal Maturity Amounts
- Coupon Rate by Maturity
- Amount Outstanding

- Call Provisions
- Purpose of the Issue
- Credit Enhancer, if any
- Competitive or Negotiated Sale
- Names of Underwriter(s) Members

The Authority shall use the debt database for the following purposes:

- Generate reports
- Gross annual debt service
- Net annual debt service
- Refunding Analyses
- Output to Fund Accounting System