

Debt Management Policy

1. Introduction

This Debt Policy provides guidelines for debt issuance, management and post issuance related policies and procedures for the Delta Conveyance Finance Authority (Authority). This Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt and financing needs of the Authority.

2. Purpose

The purpose of this Debt Policy is to establish guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the Authority. This Debt Policy is intended to improve and direct decision making, assist with the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning. Adherence to a debt policy helps to ensure the Authority's debt is issued and managed prudently in order to maintain a sound financial position and credit worthiness. When used in this Debt Policy, "debt" refers to all indebtedness and financing obligations of the Authority.

3. Debt Policy Objective

This Debt Policy is intended to comply with the requirements of Senate Bill 1029 (SB 1029), codified as part of Government Code Section 8855(i), effective on January 1, 2017 and shall govern all debt undertaken by the Authority. The primary objectives of the Authority's debt and financing related activities are to:

- A. Ensure the Authority has the flexibility to respond to possible changes in future financing needs on behalf of its members and the California WaterFix;
- B. Ensure that all debt is structured in order to protect both current and future member agencies of the Authority and their ratepayers or member entities;
- C. Minimize debt service commitments through efficient planning and cash management.
- D. Protect the Authority's credit worthiness and achieve the highest practical credit ratings, when applicable; and
- E. Ensure the Authority is in compliance with all relevant State and Federal securities laws.

4. Acceptable Uses of Debt Proceeds

The Authority will consider the use of debt financing primarily to facilitate the financing of California WaterFix, and to finance assets and capital projects only if the term of debt shall not exceed the asset or project's useful life and will otherwise comply with Federal tax law requirements. An exception to this long-term driven focus is the issuance of short-term instruments, such as revenue anticipation notes, which are to be used for reasonable cash management purposes, as described below. Bonded debt should not be issued to finance normal operating expenses.

A. Long-Term Debt.

- i. 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/or operated by the Department of Water Resources (DWR), the Authority, or Authority members. In addition, long-term debt may be issued to facilitate the financing of WaterFix through the purchase of bonds issued by DWR. Long-term debt financings may also be used to refinance outstanding debt in order to produce debt service savings or to benefit from debt restructuring.
- ii. The Authority may use long-term debt financings subject to each of the following conditions:
 - (1) The project to be financed has been or will be approved by the Board;
 - (2) 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 projects or assets to be financed by more than 20%;
 - (3) The Authority estimates that sufficient revenues will be available to service the debt through its maturity; and
 - (4) The Authority determines that the issuance of the debt will comply with the applicable requirements of State and Federal law.

B. Short-term Debt.

- i. Short-term debt may be issued to provide financing for the Authority's purchase of bonds issued by DWR to finance WaterFix to the extent that such bonds mirror the debt service of the Authority's bonds. The Authority may also issue short-term debt on behalf of its members to finance construction as requested by the member and approved by the Board.

C. Financings on Behalf of Other Entities.

- i. The Authority has been created to issue debt on behalf of other governmental agencies in order to further the public purposes of the Authority's members, primarily as a vehicle to facilitate the financing of California WaterFix.

5. Standards for Use of Debt Financing

The Authority recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, costs, and risks. Prior to the issuance of debt or other financing obligations, the Authority will carefully consider the overall long-term affordability of the proposed debt issuance by conducting an objective analysis of the Authority's and its members' ability to support additional debt service payments.

6. Types of Debt

In order to maximize the financial options available to benefit the public, it is the Authority's policy to allow the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

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A. Revenue Bonds:

- i. Revenue Bonds are limited-liability obligations tied to a specific revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the revenue. The Authority's revenues will generally be realized through installment purchase agreements from its members.

B. Loans:

- i. The Authority is authorized to enter into loans, installment payment obligations, or other similar funding structures (including federal loans such as those offered by the Environmental Protection Agency through its Water Infrastructure and Innovation Act program) secured by a prudent source or sources of repayment.

C. Short-Term Debt

- i. Short-term borrowing, such as commercial paper, Revenue Anticipation Notes (RANS), lines of credit, and short-term notes or "put" bonds will be considered as an interim source of funding in anticipation of long-term borrowing and may be issued to generate funding for to provide interim funding for WaterFix. Such short-term debt is expected to be refunded with long-term debt at the end of construction. The final maturity of the debt issued to finance the project shall be consistent with the useful life of the project.
- ii. Short-term debt may also be used to finance short-lived capital projects such as lease-purchase financing for equipment.

D. Refunding Bonds:

- i. The Authority shall refinance debt pursuant to the authorization that is provided under California law, as market opportunities arise. Refundings may be undertaken in order:
 - (1) To take advantage of lower interest rates and achieve debt service costs savings;
 - (2) To eliminate restrictive or burdensome bond covenants; or
 - (3) To restructure debt to lengthen the duration of repayment, relieve debt service spikes, reduce volatility in interest rates or free up reserve funds.
- ii. Generally, the Authority shall strive to achieve a minimum of 5% net present value savings. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Refundings which produce a net present value savings of less than 5% will be considered on a case-by-case basis. Upon the advice of the Executive Director and with the assistance of a financial advisor and bond counsel, the Authority may undertake refundings for other than economic purposes based upon a finding that such a restructuring is in the Authority's overall best financial interest.

The Authority 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 Authority makes a specific determination as to why a variable rate issue would be beneficial to the Authority and its members, and the specific form of a short-term line or letter of credit, variable rate demand obligation, commercial paper or note is recommended by the Authority's financial advisor and approved by the Board.

7. Relationship to Capital Improvement Program and Operating Budget

The Authority intends to issue debt for the purposes stated in this Debt Policy and the decision to incur new indebtedness should be integrated with the Delta Conveyance Design and Construction Authority (DCA) and DWR's capital budget and construction cash flows associated with California WaterFix. Prior to issuance of debt, a reliable revenue source shall be identified to secure repayment of the debt and the Authority will include such debt service payments in its financing budget.

8. Policy Goals Related to Planning Goals and Objectives

- A. In following this Debt Policy, the Authority shall pursue the following policy goals:
- i. The Authority is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration;
 - ii. It is a policy goal of the Authority to protect its members and member ratepayers or constituents by utilizing effective financing methods and techniques so as to obtain the highest practical credit ratings and the lowest practical borrowing costs;
 - iii. The Authority 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; and
 - iv. When refinancing debt, it shall be the policy goal of the Authority to achieve, whenever possible and subject to any overriding non-financial policy, minimum aggregate net present value debt service savings of at least 5% of the refunded principal amount.

9. Internal Control Procedures

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

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

- i. Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12;
- ii. Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues;
- iii. The Authority's investment policies and the bond indenture as they relate to the investment and use of bond proceeds; and

- iv. Government Code section 8855(k) and the annual reporting requirements therein.

The Authority shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued.

10. Amendment and Waivers of Debt Policy

This Debt Policy will be reviewed and amended from time to time as appropriate subject to Board approval.

There will be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the Authority, DWR or the Authority's members. If the Executive Director and the Authority's bond counsel and independent municipal advisor have determined that a waiver of one or more provisions of this Debt Policy should be considered by the Board, it will prepare an analysis for the Board describing the rationale for the waiver. Upon a majority of the weighted votes (based on Financial Commitments) of the Board, one or more provisions of this Debt Policy may be waived for a debt financing.

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the Authority in accordance with applicable laws.

11. SB 1029 Compliance

SB 1029, signed by Governor Brown on September 12, 2016, and enacted as Chapter 307, Statutes of 2016, requires issuers to adopt debt policies addressing each of the five items below:

- A. The purposes for which the debt proceeds may be used.
 - i. Section 4 (Acceptable Uses of Debt Proceeds) addresses the purposes for which debt proceeds may be used.
- B. The types of debt that may be issued.
 - i. Section 6 (Types of Debt) provides information regarding the types of debt that may be issued.
- C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
 - i. Section 7 (Relationship to Capital Improvement Program and Operating Budget) provides information regarding the relationship between the Authority's debt and Capital Improvement Program and annual Operating Budget.
 - ii. In addition, the Authority may rely upon the members on whose behalf it is issuing debt to certify the relationship of the debt to its Capital Improvement Program and Operating Budget.
- D. Policy goals related to the issuer's planning goals and objectives.
 - i. Section 3 (Debt Policy Objective) and Section 8 (Policy Goals Related to Planning Goals and Objectives) address some of the Authority's policy goals and how this Debt Policy has implemented them.

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- ii. In addition, the Authority may rely upon the members on whose behalf it is issuing debt to meet this requirement.
- E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.
 - i. The Authority may rely on DWR, the DCA and its members to certify that they have implemented procedures to ensure that proceeds of the proposed debt issuance will be directed to its intended purpose.

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Adopted on August 16, 2018, 2018