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COMMISSION POLICY NO. 2017-01 **Approved by**

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Approved by Commission at Meeting of September 21, 2020 by Resolution No. SVCW 20-31

SUBJECT: Statement of Debt Management Policy

APPLICABLE CODES AND REGULATIONS:
Government Code Section 8855, Government Code 5852.1

PURPOSE:

This Debt Management Policy (the "Policy") establishes the comprehensive policies and procedures for the issuance and management of bonds, capital leases, and other forms of indebtedness ("Debt") of Silicon Valley Clean Water (the "Authority", or "SVCW") The purpose of the Policy is to identify Debt policy objectives, improve the quality of decision making processes, provide a basis for the determination of the appropriate structures, diversify SVCW's Debt portfolio, to the extent such is cost effective, to support its financial needs and to demonstrate a commitment to best practices in municipal debt management planning and execution.

This Policy provides guidelines for the issuance and management of the Authority's Debt portfolio. Adherence to the policy will help ensure that the Authority maintains a diversified Debt portfolio that supports its financing needs and minimizes the Authority's cost of funding.

The Commission of SVCW (the "Commission") may, in its sole discretion, approve Debt that deviates from this Policy, upon the recommendation of management. The failure of SVCW to comply with any provision of this Policy shall not affect the authorization or the validity or enforceability of any Debt that is otherwise issued in accordance with law. SVCW shall conduct an annual review and evaluation of this Policy. As appropriate, SVCW shall amend the Policy to be consistent with changes in the federal and state securities laws, pronouncements of the Securities and Exchange Commission and such other matters as the Chief Financial Officer ("CFO") deems necessary or desirable.

The Authority's overarching goal in issuing Debt is to respond to, and provide for, the funding of capital projects and other financing needs of the Authority's wastewater system while ensuring that Debt is issued and managed prudently. Additional Policy goals are to maintain appropriate Debt and debt service levels through collaborative long-term planning with the Member Agencies, as defined herein, and to maintain a sound fiscal position and protect the credit quality of SVCW.

The Authority believes that Debt can provide an equitable means of financing projects for customers of the Member Agencies and providing access to new capital needed for infrastructure and project needs. Debt will be used to meet financing needs if (i) it meets the goals of equitable treatment of all customers of the Member Agencies, respectively, both current and future; (ii) it provides for an effective means of paying for assets over their useful lives in lieu of paying for the assets over a much shorter period with cash and thereby avoiding sharp spikes in customers' rates;

(iii) it is fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (iv) if there are other important policy reasons therefor.

POLICY:

CREATION AND 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 LAWS

Joint Powers Act – The Authority is a Joint Exercise of Powers Authority (JPA) organized under the provisions of California law governing the joint exercise of powers, being Chapter 5, Division 7, Title 1 of the Government Code of the State of California. The JPA Act gives the Authority the right to contract, construct works, and to incur indebtedness. The Authority shall comply with all constraints of the JPA Act.

Governance - The Authority is a JPA created by and among the City of Belmont, the City of Redwood City, the City of San Carlos and West Bay Sanitary District (the “Member Agencies”), all of which are located in Silicon Valley between the cities of San Francisco and San Jose. SVCW is governed by a four-member Commission consisting of one appointed member from each of the Members Agencies’ elected governing bodies. The Authority was created through an agreement by and among the Member Agencies (the “JPA Agreement”) to provide wastewater transmission, treatment and effluent disposal for the Member Agencies and to own and operate the related wastewater facility and all appurtenances related thereto. The Authority shall comply with all constraints of the JPA Agreement.

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.

ETHICAL STANDARDS GOVERNING CONDUCT

Member Agencies’ representatives, management and Commissioners of the Authority, consultants, service providers, and underwriters to the Authority 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, in accordance with MSRB Rules, including G-37. Additionally, all debt financing participants will assist Authority staff to achieve its goals and objectives as defined in this Policy; shall make cooperation with Authority staff its highest priority and shall take reasonable actions to avoid conflicts of interest and immediately advise SVCW of possible conflicts of interest.

PERMITTED DEBT BY TYPE

The Authority may legally issue both short-term and long-term Debt, subject to the limitations of this Policy, using the debt instruments described below. The CFO, in consultation with the SVCW Manager, Authority General Counsel, Bond Counsel, and Municipal Advisor shall determine the most appropriate instrument for a proposed Debt issuance.

JPA Revenue Bonds – SVCW shall issue Limited Obligation Bonds to make proceeds available to finance the acquisition, construction and/or improvement of SVCW's wastewater system. The obligations represent special limited obligations of SVCW which are payable solely from and secured solely by the Net Revenues (as such term is defined in the respective governing documents), pledged under the indenture consisting primarily of payments made by participating Member Agencies**.**

Lines of Credit - The Authority may enter into financing arrangements providing for interim cash liquidity through a source of funds that can be readily accessed by the Authority for capital needs. The period of a Line of Credit may not exceed five years from its issuance date. Commission action is sufficient to legally authorize the establishment of a line of credit.

Commercial Paper – SVCW may establish a commercial paper program ("Commercial Paper Program") for the purpose of providing funds to finance the acquisition, construction, and rehabilitation of capital improvements and the financing of vehicles and equipment. A Commercial Paper Program may be utilized and commercial paper obligations will be issued from time to time to provide financing for projects, subject to the conditions that the projects and project financing will have prior approval from the Commission. 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. The CFO shall provide a written report to the Commission twelve months following the initial issuance of commercial paper obligations and annually thereafter so long as there is any commercial paper outstanding. The report shall summarize the status of projects financed with commercial paper; and identifying any certificates of participation or other long term obligation refunding commercial paper obligations.

Capital Leases – Capital equipment and personal property SVCW may be eligible for capital lease financing. Eligible equipment must have per unit cost of at least $100,000 unless it is an integral part of a system (such as a computer network) then the aggregate of the various components must be at least $100,000. The useful life of the asset will be in excess of five years and at least 120% of the financing and refinancing term.

Bond Anticipation Notes – SVCW may issue short-term indebtedness ("BANs") in anticipation of the issuance of revenue bonds. The BANs will have a final maturity not exceeding five years from the date of issuance.

Refunding Revenue Bonds – The Authority is authorized to issue refunding revenue bonds to refund outstanding Authority indebtedness pursuant to the State of California local agency refunding revenue bond law (Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California).

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. SVCW may enter into Loans with private financial institutions, or federal and state agencies.

Other Obligations - There may be special circumstances when other forms of financing are appropriately utilized by SVCW. SVCW will evaluate such proposed transactions on a case-by-case basis. Such other forms include, but are not limited to, grant anticipation notes and judgment or settlement obligation bonds.

LIMITATIONS ON DEBT ISSUANCE

The CFO shall determine whether proposed Debt transactions comply with the Debt limitations prescribed by the Policy. Proposed Debt transactions that meet the limitations of the Policy will be subject to approval by resolution of the Commission as prescribed by state law. In the event the CFO determines any proposed Debt transaction exceeds the limits imposed by this Policy, the Commission may approve such transaction by majority vote.

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 each participating Member Agency can generate wastewater revenues to the extent that (i) current year gross revenues sufficient to pay operations and maintenance costs and its allocable share of Authority Debt service and (ii) projected net revenues of each Member Agency are equal to 120% of the participating Member Agency's allocable share of Authority Debt service. The calculation of Debt service coverage shall include amounts on hand in the unencumbered funds. The Authority will work collaboratively with the Member Agencies to structure Debt so as to achieve senior lien debt service coverage at the Member Agency level that will retain the strong credit ratings of the Authority's Debt.

Short-Term Debt – Short-term Debt with a term to maturity of less than five years is issued to 1) provide for funding for assets that are short-lived but due to cost are more equitable to finance or 2) provide financing for the acquisition and/or construction of long-lived capital projects to be refunded by long-term Debt financing described above. Due to the size of the current funding requirements of the capital improvement program, ("CIP"), short-term debt may represent an amount equal to 30% of its total Debt at the time of issuance. SVCW will periodically assess this limitation and based upon the CIP or rating agency standards management may recommend changes to this Policy. The calculation of short-term Debt shall include variable rate demand obligations, the authorized amount of commercial paper, any notes/bonds with a final maturity equal to or less than five years. SVCW may exclude the principal from the 30% limitation i**f** the Authority intends to pay such principal from the proceeds of bonds, notes or other obligations of the Authority or moneys other than Net Revenues.

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 of each participating Member Agency can generate overall Debt service coverage of at least 100 percent.

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 Commission as part of the approval process. Based upon rating agency standards, the Authority's variable rate Debt shall not exceed 30 percent of its total Debt at the time of issuance of any variable rate Debt.

Capital Equipment Leases - The outstanding aggregate principal amount of capitalized lease agreements in connection with equipment may not exceed $5,000,000; however, such amount shall increase by five percent each fiscal year starting with fiscal year 2016/17. SVCW will monitor the amount of capital equipment lease outstanding and maximum limitation to ensure sufficient borrowing capacity.

PURPOSE FOR BORROWING

The Authority shall issue long term Debt (such Debt that has a final maturity of more than five years from its date of issuance) 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") or for refunding existing Debt. The Authority will not issue Debt to fund operations. The Authority shall issue short-term Debt only as provided for in this Policy.

PROCEDURE:

PROCEDURE I. 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 CFO shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows including capital expenditures and 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
- Collaborative modeling with Member Agencies to establish projected rates and charges.

The following steps outline the Authority's approach to Debt management.

- The Authority will evaluate financing options annually as part of the update to the Long-Range Financial Plan capital project.
- The Authority will seek to pay for all capital projects from current revenues and available reserves prior to or in combination with the use of Debt.
- The Authority will issue Debt only in the case where there is an identified source of repayment. The Authority will work with its Member Agencies to reasonably demonstrate that (i) projected revenues are sufficient to pay for the forecasted operation and maintenance expenses and proposed Debt service together with all existing Debt service covered by such revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for forecasted operations and maintenance expenses and the proposed Debt.
- Debt issuance for a capital project will not be considered unless such issuance has been incorporated into the capital improvement plan and Long Range Financial Plan.
- Wastewater rates and charges will be set by each participating Member Agency at adequate levels, which are fair and nondiscriminatory, to generate sufficient revenues to pay all operating and maintenance costs, to maintain sufficient operating reserves, and to pay Debt service costs, if necessary.

PROCEDURE II. PROCUREMENT AND EVALUATION OF PROFESSIONAL SERVICES

Appointment of Service Providers – The CFO shall solicit from time to time bids, quotes or proposals, including sole source proposals, for the following services on an as needed basis:

- Municipal 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 advisor, a firm may not also engage in the underwriting of the Authority bond issue for which that firm acts as municipal advisor. A firm may not switch roles (i.e., from municipal advisor to underwriter) after a financial transaction has begun. SVCW may determine to utilize the services of independent municipal advisor(s) and feasibility consultant(s) ("MA") on Debt financing when prudent. SVCW shall utilize a request for qualifications and/or request for proposals ("RFP") to select a pool of such municipal advisors to mitigate time constraints and reduce overhead costs of SVCW in procuring such services. Services shall be documented by contract and compensation shall be capped. Every MA shall be registered with the Municipal Securities Rulemaking Commission ("MSRB") and Securities and Exchange Commission ("SEC"). No municipal advisor shall serve as an underwriter on a transaction.

- Bond and Tax 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. The CFO and General Counsel shall jointly select bond, tax and /or disclosure counsel ("Bond Counsel") for each transaction. SVCW General Counsel shall periodically review the performance of Bond Counsel with SVCW management in terms of quality and timeliness of legal services.

- 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 connection with the offering documentation under state and federal laws as applicable. The CFO and General Counsel shall jointly select disclosure counsel ("Disclosure Counsel") for each transaction. SVCW General Counsel shall periodically review the performance of Disclosure Counsel with SVCW management in terms of quality and timeliness of legal services.
- Rebate Consultant – A Rebate Consultant shall be selected by RFP for all tax-exempt long-term obligations for a set term with 1-year extensions. Rebate analyses will be performed annually on the anniversary of the issuance, or as determined by SVCW, by the Rebate Consultant.

Nothing in this Policy shall prevent the Authority from using the same law firm from acting as both Bond and Disclosure Counsel.

PROCEDURE III. TRANSACTION-SPECIFIC ACTIVITIES

Method of Sale for Publicly Offered Debt

Unless otherwise justified and deemed necessary to minimize the costs and risks of the Authority's bond issue, SVCW will proceed with the sale of Debt on a competitive basis.

Competitive Bid Method - Such bids may take the form of hand-delivered or electronically transmitted offers to purchase the Debt. 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;
- Commercial paper;
- 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.

Variable rate demand obligations, or commercial paper, would be expected to be issued by negotiated sale. SVCW shall retain a minimum of two broker/dealers or remarketing agents for each issuance of variable rate demand obligations, or commercial paper equal to or exceeding $100 million. The broker/dealers or remarketing agents shall be retained for a period co-terminus with the final maturity of any variable rate bonds provided that SVCW may replace a broker/dealer or remarketing agent with notice at any time for any reason in its sole discretion.

Underwriters and Remarketing Agents shall be selected by SVCW through a request for proposal process for each transaction. The performance of Remarketing Agents shall be monitored on a monthly basis. SVCW may replace a remarketing agent or broker-dealer with notice at any time.

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 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.

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 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 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 CFO a complete and timely account of all orders, allocations, and underwriting activities with the investor names identified as appropriate.

The CFO 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.

Private Placements/Direct Loans - In the event the Authority chooses to proceed with a loan, or private placement of any form of Debt from a non-governmental entity, the Authority will issue a request for proposal 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 the Debt solely based upon true-interest cost but may take into consideration call features, debt service structure and the requirement of any reserve fund requirements prior to making any award.

Structural Elements

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 life greater than 100% of the average useful life of the assets, but only in compliance with federal tax code requirements and with the express approval of the Commission. The final maturity of the debt should be no longer than 40 years; however, the Commission may expressly approve a final maturity longer than 40 years upon the recommendation of management. 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.

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 obligations. 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, the Authority will strive to structure debt on a level basis.

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 CFO, in consultation with the Municipal 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, including but not limited to, 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 a reserve fund as market conditions dictate. A reserve fund can be established to support each individual series of debt or as a common reserve that can support more than one debt issuances. The reserve fund is typically funded in its entirety with bond proceeds at the time of issuance but can also be funded through a letter of credit or a Surety Policy.

Investment of Bond Proceeds - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction. The District will seek to maximize investment earnings within the investment parameters set forth in each respective bond indenture. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing arbitrage/rebate position and evaluating alternative debt structures and refunding savings on a "net" debt service basis, where appropriate.

PROCEDURE IV. COMMUNICATION AND DISCLOSURE

Rating Agencies

SVCW will secure underlying ratings on all publicly issued obligations from at least one of the nationally recognized statistical rating organizations, provided it is economic to do so. Investor preference with respect to the number of ratings assigned to a bond issuance can vary depending upon market conditions and global economic conditions. In light of such, the CFO, with the assistance of the Municipal Advisor, will recommend the number of credit ratings at an appropriate time prior to the approval of any issuance by the Commission. The Authority shall maintain the credit ratings on its debt through prudent fiscal management and consistent communications with the rating analysts. The CFO shall manage relationships with the rating analysts assigned to the Authority's credit, using practical methods to disseminate information. Communication with the rating agencies may include one or more of the following:

- Full disclosure on an annual basis of the financial condition of the Authority and its Member Entities through publicly available documents;
- A formal presentation, as necessary to the rating agencies analysts, 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 Comprehensive Annual Financial Report, following its acceptance by the Authority's Commission;

- Full and timely distribution of any documents pertaining to the sale of bonds; and
- Periodic tours of the Wastewater Treatment Plant, as appropriate.

Bond Insurers

The CFO 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 CFO, with the assistance of the Authority's Municipal Advisor, determines that credit enhancement is cost effective for a proposed bond issue.

Disclosure Reports – The Authority may make disclosure reports readily available to institutional investors, rating agencies and credit enhancers who have specific analysts assigned to review the Authority's credit. SVCW shall comply with all federal securities disclosure laws and strive to maintain good investor relations through the timely dissemination of pertinent and material financial information. SVCW will covenant to provide annual disclosure in accordance with SEC Rule 15c2-12. SVCW will also covenant to provide its annual disclosure report (the "Annual Report") no later than 270 days following the end of the fiscal year (currently March 31 based on the Authority's fiscal year end of June 30), but SVCW will strive to issue the Annual Report as soon as practical following any issuance of SVCW's annual Comprehensive Annual Financial Report ("CAFR"). The Annual Report, in addition to being posted in accordance with law, will also be posted at SVCW office of the CFO and be on file with the Treasurer. The Annual Report shall include CUSIPs, trustee and SVCW contacts, and applicable project status as required, for all transactions subject to annual reporting.

Website – The Authority shall use its website and affiliated investor relation links as a tool for providing timely information to investors. Investors should additionally refer to the Authority's timely filings of its continuing disclosure reports to the NRMSIRs, as herein defined.

PROCEDURE V. REFUNDING

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 Commission. 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. SVCW will use the refunding issue's arbitrage yield as the discount rate to calculate net present value savings for tax-exempt refundings and the true-interest costs for taxable refundings.

Upon the advice of the CFO, with the assistance of the Municipal Advisor and Bond Counsel, the Authority will consider undertaking refunding transactions 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, or onerous covenants; such refunding transactions do not need to achieve any net present value savings.

Savings Thresholds – Minimum savings thresholds 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 CFO with the advice of the Municipal Advisor may take the following into consideration:

- **Coupon on Refunded Bond** – The CFO may take into consideration whether the coupon on the refunded bond is significantly higher or lower than the most common outstanding bond coupons.
- **Escrow Structuring** - The District shall strive to utilize the least costly securities available in structuring each escrow. A certificate will be required from a third party agent who is not acting as a broker-dealer, stating that the securities were purchased through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Series Securities (SLGS), and that the price paid was reasonable and within Federal guidelines. When evaluating the economic viability of an economic versus legal defeasance, the District shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The District shall take all necessary steps to optimize its escrows and to avoid negative arbitrage in its refunding transactions. SVCW will strive to achieve an escrow efficiency between 70% and 80%; however, the Commission may expressly approve a refunding with lower escrow efficiency upon the recommendation of management. The escrow efficiency is calculated by dividing the net present value savings by the sum of the net present value savings plus the negative arbitrage in the escrow.
- G**eneral Interest Rate Environment** – The CFO 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 CFO 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 CFO 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 CFO 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 CFO may take into consideration the amount of time remaining until the final maturity of the Debt to be refunded.

PROCEDURE VI. 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 Permitted Investments in the indenture.

PROCEDURE VII. 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 its Reserve Policy.

PROCEDURE VIII. 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 shall comply with all federal tax code requirements and limitations 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 all Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) designated by the SEC and to the State Information Depository (SID), if one exists. This shall include:

- Audited Financial Statements; 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, ("Material Events") to the NRMSIRs and to the 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.

PROCEDURE IX. 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

PROCEDURE X. MISCELLANEOUS

Primary responsibility for Debt management rests with the CFO. The CFO shall:

- Provide for the issuance of Authority Debt at its 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 Commission 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 Commission 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.

Internal Controls

In order to comply with the following internal controls, the CFO, SVCW Manager, and the Authority Chief Engineer 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, no disbursements shall be made without the written approval of the CFO and SVCW Manager. The draw request shall be provided to the Authority’s Engineering

Department by the Contractor. Approval shall only be provided when the CFO 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.

- 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 SB 1029.

The Authority shall also comply with Government Code Section 5852.1 (SB 450) by disclosing specified good faith estimates in a public meeting prior to the authorization of the issuance of bonds.

Pursuant to Government Code section 8855(k), the Authority will submit annual debt transparency reports for any debt for which it has submitted a report of final sale on or after January 21, 2017 every year until the later date on which the debt is no longer outstanding and the proceeds have been fully spent.

Approval by the Commission

The Commission may waive any policy requirements based upon the recommendation of Management after consulting with its Municipal Advisor. All long-term and short-term financing transactions shall be approved by resolution of the Commission.

- Revenue Bonds: All issuances of special limited obligation revenue bonds shall be authorized by resolution of the Commission.
- Capital Leases: All capital leases financing capital equipment with a term exceeding five years and requiring anticipated expenditures by SVCW exceeding $100,000 shall be authorized by resolution or ordinance of the Commission by majority vote.
- Refunding Obligations: The Commission is authorized to provide for the issuance of Debt for the purpose of refunding any limited obligation bond.