

## Exhibit "A"

### WEST BASIN MUNICIPAL WATER DISTRICT Debt Management Policy

#### I. Purpose

The purpose of this Debt Management Policy ("Policy") is to establish parameters and provide guidance as to the issuance, management, continuing evaluation of and reporting on all debt obligations.

This policy affirms the commitment of the Board of Directors (the "Board") of West Basin Municipal Water District (the "District") in the practices of sound financial management which includes the timely repayment of all debt, borrowing at the lowest possible net cost of capital while balancing risks associated with any actions or inactions, preserving financial flexibility, and maintaining strong credit ratings and good investor relations.

#### II. Goals and Objectives

A debt management policy sets forth the guidelines for the issuance of debt and the management of outstanding debt. The Policy establishes parameters which recognize the District's specific capital requirements, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. Specifically, the Policy is intended to assist the District in the following:

1. Evaluating critical debt issuance options;
2. Maintaining appropriate capital assets for present and future needs;
3. Promoting sound financial management through accurate and timely information on financial conditions;
4. Protecting and enhancing the District's credit rating; and
5. Ensuring the legal use of District financing authority through an effective system of internal controls.

#### III. Roles and Responsibilities

The Chief Financial Officer is the designated administrator of the Policy. The Chief Financial Officer shall have the day-to-day responsibility and authority for structuring, implementing, and managing the District's debt and finance program.

The Board acknowledges that changes in the capital markets and other unexpected events may, from time to time, create situations and opportunities that are not contemplated by this Policy and may require adjustments or exceptions to the guidelines of the Policy. In such circumstances, the ability of the District to be flexible is important; however, any authorization granted by the Board to proceed with a financing or financial product not expressly permitted by the Policy must be accompanied by an

acknowledgement of the Board that the actions to be taken by the District are not specifically authorized by the Policy in force at that time. The Policy shall be initially adopted by the Board and reviewed annually. Future updates, if necessary, to the Policy require the approval by the Board.

#### **IV. Long Range Financial Plan**

A Long Range Financial Plan shall be prepared by the Chief Financial Officer for consideration and approval by the Board. The Long Range Financial Plan will be updated at least once every fiscal year and consist of a future planning horizon of at least five years. In addition to capital project costs, the Long Range Financial Plan shall include the following:

1. Description of all sources of funds;
2. Timing of capital expenditures;
3. Effect of capital projects on District's debt burden;
4. Tracking of reserve levels; and
5. Debt service requirements.

#### **V. Debt Financing**

##### *A. Revenue Obligations*

Long-term revenue obligations issued through a financing corporation or other entity should be used to finance and refurbish capital facilities, projects and certain equipment where it is determined to be cost effective and fiscally prudent. Long-term revenue obligations will not be used to fund operations of the District. The scope, requirements, and demands of the Budget, reserve levels, on the Long Range Financial Plan, and the ability or need to expedite or maintain the programmed schedule of approved capital projects, will also be factors in the decision to issue long-term debt. Revenue obligations will be structured to achieve the lowest possible net cost to the District given market conditions while balancing risks, considering the Long Range Financial Plan, and the nature and type of security to be provided.

The District's debt capacity will not exceed legal limitations, such as rate covenants or Additional Debt Tests imposed by existing financing covenants. Prior to the issuance of any new revenue obligations, the impact of debt service payments on total annual fixed costs will be analyzed.

As users of the District facilities will benefit from long-term capital investments in future years, it is appropriate that future revenues pay a share of the costs.

##### *B. Commercial Paper*

Commercial paper is a cash management tool that the District may use to provide interim and long-term funding for capital expenditures that will ultimately be funded

from another source such as a grant or long-term debt. Such a program would be implemented directly by the District or through a financing corporation or other entity. If implemented through the financing corporation or other entity a tax revenue anticipation note or other instrument would be delivered by the District as security for the program. Periodic issuances or retirements of commercial paper notes within a Board approved program would not require further Board action once the program is implemented.

The Chief Financial Officer would be responsible for implementing and managing the District's sale of commercial paper. The Chief Financial Officer would work closely with commercial paper dealers to develop a marketing strategy for the initial sale and subsequent roll-over of commercial paper amounts and maturities.

#### *C.. Fixed and Variable Rate Obligations*

The District typically issues fixed rate obligations. When appropriate, however, the District may choose to issue variable rate obligations, or securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing or auction of securities. The maximum level of net variable rate obligations incurred shall not exceed 20% (the "Maximum Variable Percentage") of outstanding debt. To determine the amount of "net" variable rate obligations, the District will add the principal amount of a fixed rate obligation which are subject to a fixed-to-variable interest rate Swap and will subtract the amount of the District's short-term investments (maturities of less than 12 months) as well as the principal amount of a variable rate obligation which are the subject of a variable-to-fixed interest rate Swap which the District's financial adviser reasonably believes will result in a fixed interest rate to the District.

Variable rate exposure can provide a means to enhance asset/liability management. The primary goal of asset/liability management is to mitigate the impact of increased interest costs in a rising interest rate environment, and mitigate the impact of decreased interest income in a declining interest rate environment. The Chief Financial Officer will continuously review the net variable rate exposure of the overall debt portfolio. <sup>A</sup>

In selecting and retaining remarketing agents for variable rate debt, the District should choose remarketing agents that diversify its exposure and foster competition. For similar reasons, the District should seek to diversify its counterparties when selecting institutions to provide liquidity or Credit Enhancement for variable rate debt. The Chief Financial Officer will regularly review the performance of the individual remarketing agents in relation to other remarketing agents, similar programs, and market indices.

#### *D. Grant Anticipation Notes*

The District may issue short-term notes to be repaid with the proceeds of State or Federal grants if appropriate for the project and in the best interest of the District.

Generally, grant anticipation notes ("GAN's) will only be issued if there is no other viable source of up-front cash for the project. Prior to embarking on selling GAN's the District must identify a secondary source of repayment for the GAN's in case the expected grant funging does not occur.

*E. Lease Financings*

Lease obligations are a routine and appropriate means of financing certain types of equipment, but are generally not appropriate for long-term financing of capital assets such as land or facilities. Leases should be considered where lease financing will be more beneficial than funding from reserves or current revenues. The useful life of capital equipment, the term and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. Cash flow sufficiency, capital program requirements, lease program structures and cost, and market factors will be considered in conjunction with Pay-As-You-Go strategies in lieu of lease financing.

**VI. Debt Refinancing**

Refunding obligations are issued to retire all or a portion of an outstanding debt issue. Economic refundings refinance high coupon debt at lower interest rates to effectuate debt service savings. Alternatively, an Issuer can conduct a refunding for reasons other than costs savings, such as to restructure debt service payments, to change the type of debt instruments, or to modernize financing documents by removing undesirable covenants.

The District will target economic refundings that produce net (including cash contributions and foregone interest earnings) present value savings of at least 3% of the refunded par amount of each maturity being refunded. Refundings producing less than 3% net present value savings for each maturity being refunded will be considered for non-economic purposes, such as removing restrictive covenants, reducing risk, altering the overall debt repayment schedule of the District, releasing revenues, and ease of administration.

The Chief Financial Officer will monitor refunding opportunities for all outstanding debt obligations on a periodic basis applying established criteria in determining when to issue refunding debt.

**VII. Debt Structure Considerations**

*A. Maturity of Debt*

The final maturity of the debt shall not exceed, and preferably be less than, the remaining useful life of the assets being financed, and to comply with Federal tax regulations, the average life of a financing shall not exceed 120% of the average life of the assets being financed.

*B. Debt Service Structure*

Debt service payments for any debt issue will be structured to have approximately level debt service payments over the life of the debt issue. The debt service structure objective is overall level debt service with the debt service declining as debt matures. Exceptions are permissible for refunding debt that will have varying principal repayments structured to fill in the gaps created by refunding specific principal maturities. The Chief Financial Officer may also structure the amortization of principal to wrap around existing obligations or to achieve other financial planning goals. Deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project revenues are sufficient to pay debt service.

*C. Lien Structure*

Senior and subordinate liens will be utilized in a manner that will maximize the most critical constraint, either cost or capacity, thus allowing for the most beneficial leverage of revenues.

*D. Capitalized Interest*

*The District* may elect to capitalize interest in connection with the construction of certain projects when revenues from the project will not be available until completion. Other than such instances the District will not capitalize interest on financings thus avoiding increased borrowing amounts.

*E. Reserve Funds*

A reserve fund for a debt issuance may be required for rating or marketing reasons. If required, such reserve fund can be funded with cash or a surety policy from 1) the proceeds of a debt issue or 2) the reserves of the District. A cash reserve fund will be invested pursuant to the investment restrictions associated with the respective financing documents. For each debt issue, the Chief Financial Officer will evaluate whether a reserve fund is required for rating or marketing purposes and the benefits of funding or maintaining the reserve requirement with cash or a surety policy, in addition to determining the benefits of borrowing the necessary funds or using cash reserves.

*F. Redemption Provisions*

In general, the District will have the right to optionally redeem debt no later than 11 years after issuance. Redemption provisions will be established on a case-by-case basis, taking into consideration market conditions and the results of a call option analysis prior to the time of sale. Because the issuance of non-callable debt may restrict future financial flexibility, cost will not be the sole determinant in the decision to issue non-callable debt.