WEST BASIN MUNICIPAL WATER DISTRICT

DEBT MANAGEMENT POLICY

Updated 2/27/17

Excerpt from West Basin Administrative Code

Part 4. Financial Matters, Chapter 1. Administrative Matters, Article 6. Debt Management Policy

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PART 4. FINANCIAL MATTERS

CHAPTER 1. ADMINISTRATIVE MATTERS

ARTICLE 6. DEBT MANAGEMENT POLICY

4-1.601 PURPOSE[1,2]

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, maintaining strong credit ratings, and providing timely disclosure and maintaining good investor relations. The Policy is in accordance with current legislative requirements and incorporates industry best practices

4-1.602 GOALS AND OBJECTIVES[3]

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:

(a) Evaluating critical debt issuance options, including the types of debt that may be issued and incurred by the District;

(b) Integrating debt issuance with the District's capital improvement program, budget and long-range financial plan in order to maintain appropriate capital assets for present and future needs;

(c) Promoting sound financial management through accurate and timely information on financial conditions;

(d) Protecting and enhancing the District's credit rating; and

(e) Ensuring the legal use of District financing authority through an effective system of internal controls.

4-1.603 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.

4-1.604 LONG-RANGE FINANCIAL PLAN[4]

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:

(a) Description of all sources of funds;

(b) Description of operating expenses;

(c) Debt service requirements;

(d) Timing of capital expenditures;

(e) Impact of new capital projects on District's debt burden;

(f) Designated fund levels; and

(g) Minimum target on debt coverage.

4-1.605 DEBT FINANCING[5,6]

(a) Revenue Obligations. Long-term revenue obligations issued through the District, a financing corporation, joint powers agency 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, 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 or contractual 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 and more closely match the term of repayment to the expected economic useful life of the project being financed.

(b) Commercial Paper. Commercial paper and similar financing products including, but not limited to, revolving bank credit agreements and letters of credit are cash management programs 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 may be implemented directly by the District or through a financing corporation or other entity. If implemented through a financing corporation or other entity a tax revenue anticipation note or other instrument will be delivered by the District as security for the program. Periodic issuances or retirements of commercial paper notes or similar financing products within a Board approved program would not require further Board action once the program is implemented.

The Chief Financial Officer is responsible for implementing and managing the District's commercial paper or similar financing program. The Chief Financial Officer will work closely with commercial paper dealers, if any, to develop a marketing strategy for the initial sale and subsequent roll-over of maturing amounts.

(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 (including Commercial Paper), 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 the lessor of the District's unrestricted reserves or 20% (the "Maximum Variable Percentage") of outstanding debt. To determine the amount of "net" variable rate obligations, the District will add obligations subject to variable rates including the principal amount of fixed rate obligations which are subject to fixed-to-variable rate interest rate Swaps 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 variable rate obligations which are the subject of variable-to-fixed rate interest rate Swaps which the District's financial adviser reasonably believes will result in essentially fixed interest rates 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 review the net variable rate exposure of the overall debt portfolio on a quarterly basis and at any time that additional debt is issued.

In selecting and retaining remarketing agents for variable rate debt, the District should choose remarketing agents that diversify its exposure and foster competition. 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 the event that expected grant funding 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.

(f) State Revolving Fund Loans. The District may enter into loan agreements with the State Revolving Fund (SRF), which provides a low or zero interest loan program made available for specific construction projects. SRF loans are generally structured such that the District is required to contribute a percentage of the total project cost and receives loan proceeds from the State of California for the balance. The SRF loan interest rate is calculated by taking half of the True Interest Cost (TIC) of the most recent sales of State General Obligation Bonds. The term of the loans can be 20 or, if applicable, an extended financing term of 30 years. SRF Loans may provide additional assistance in the form of principal forgiveness. Principal forgiveness must be specified at the execution of the loan agreement for the amount forgiven to be counted against the total loan required to be provided by the SRF.

(g) Water Infrastructure Finance and Innovation Act (WIFIA) Loans. The WIFIA program is a federal credit program administered by EPA for eligible water and wastewater infrastructure projects. The minimum project size is $20 million and a WIFIA loan can fund up to 49% of an eligible project cost with a maximum final maturity date of 35 years after the date of substantial project completion. The District will evaluate the use and applicability of WIFIA for qualifying capital projects.

4-1.606 DEBT REFINANCING[7,8]

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 current refundings (refundings within 90 days of the call date) 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 other purposes, such as removing restrictive covenants, reducing risk, altering the overall debt repayment schedule of the District, releasing revenues, and ease of administration.

The District will target advance refundings (refundings that occur greater than 90 days prior to the call date) that produce net (including cash contributions and foregone interest earnings) present value savings of at least 5% of the refunded par amount of each maturity being refunded, and achieve at least 70% escrow efficiency (where escrow efficiency is defined such that present value savings is greater than or equal to 70% of the sum of negative arbitrage and net present value savings). Refundings producing less than 5% net present value savings for each maturity being refunded may be considered for other 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 and bring forth the recommended opportunities with appropriate resolutions and related documentation.

4-1.607 DEBT STRUCTURE CONSIDERATIONS[9,10]

(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 new money debt issue will be structured to create approximately level debt service payments over the life of the debt. 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 fund capitalized interest in connection with the construction of certain projects when revenues from the project will not be available until completion.

(e) Reserve Funds. A reserve fund for a debt issuance may be beneficial 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, 2) the reserves of the District or 3) a surety policy issued in lieu of using debt proceeds or reserves. 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 at par no later than 10 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.

(g) Credit Enhancement. Credit Enhancement on District financings will only be used when net debt service is reduced by more than the cost of the enhancement and the District should seek to diversify its exposure to banks when selecting institutions to provide liquidity or Credit Enhancement for variable rate debt.

Bond insurance will be used when it provides an economic advantage to a particular debt maturity or the entire issue. The District will evaluate the availability and cost/benefit of credit enhanced debt versus unenhanced debt prior to issuing any debt.

In managing its variable rate debt portfolio, the Chief Financial Officer will regularly monitor the market for Credit Enhancement, particularly liquidity facilities provided by Credit Enhancement providers and alternative variable rate products and the use of alternative variable rate instruments that do not require Credit Enhancement.

4-1.608 METHOD OF SALE

The District will select a method of sale that is the most appropriate when considering the financial, market, transaction-specific and Issuer-related conditions. There are three basic methods of sale: Competitive Sale, Negotiated Sale and Private Placement. Each type of debt sale has the potential to provide the lowest cost given the right conditions. The Chief Financial Officer will recommend to the Board the most appropriate method of sale in light of prevailing financial, market and transaction-specific conditions. If a negotiated sale is expected to provide overall benefits, the selection of the senior managing underwriters and the co-managers shall be made from the approved pool of underwriters selected through the process described below.

4-1.609 INVESTMENT OF PROCEEDS[11]

Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not comingled with other forms of District funds. The District's Trustee or Fiscal Agent will administer the disbursement of bond proceeds pursuant to each certain Indenture of Trust or Fiscal Agent Agreement, respectively. To ensure proceeds from bond sales are used in accordance with legal requirements invoices are reviewed by the Chief Financial Officer prior to payment. Requisition for the disbursement of bonds funds will be approved by the District's Chief Financial Officer or designated alternate. Responsibility for general ledger reconciliations and records is segregated from the invoice processing, cash receipting, and cash disbursement functions.

The Chief Financial Officer will be tasked with monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the District will meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be demonstrated that 85% of the proceeds can reasonably be expected to be expended within the three-year temporary period.

The District shall competitively bid the purchase of securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest proceeds of a financing. The District shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of financing-related funds. The primary investment objectives are safety, liquidity, and yield. The District's independent investment advisor must be a registered Investment Advisor. The District shall diversify invested proceeds in order to reduce risk exposure to providers, types of investment products and types of securities held. The District will require that all fees resulting from investment services or sale of products to the District be fully disclosed to the District (including fees paid by third parties) to ensure that there are no conflicts of interest and investments are being purchase at a fair market price, consistent with the District's Investment Policy.

4-1.610 CREDIT/RATINGS OBJECTIVES

The District's objective is to maintain or improve its credit ratings as a way of reducing financing costs. The Chief Financial Officer shall be responsible for implementing and managing the District's credit rating agencies relations program. This effort shall include providing the rating agencies with the District's annual budget, financial statements and other information they may request. Full disclosure of operations will be made to the credit rating agencies. The Chief Financial Officer shall also coordinate periodic meetings with the rating agencies and communicate with them prior to each debt issuance.

4-1.611 INVESTOR RELATIONS

The Chief Financial Officer shall be responsible for implementing and managing the District's investor relations program. The Chief Financial Officer respond to inquiries from institutional and retail investors. If necessary, the Chief Financial Officer shall periodically meet or conduct conference calls with key institutional investors in order to familiarize the institutional investors with the District's financial history and financial projections. Such communication shall be made only if permitted under applicable federal securities laws.

4-1.612 DISCLOSURE AND ARBITRAGE REBATE COMPLIANCE

The District will comply with all financing covenants to maintain the validity of the issuance of debt, including, but not limited to tax-exemption, Arbitrage Rebate compliance, insurance provisions, reporting and monitoring requirements. The District will ensure compliance with all continuing disclosure requirements as part of its ongoing debt program. Any instance of noncompliance will be reported to the Board.

4-1.613 CONSULTANTS[12]

(a) Financial Advisor. The District will retain an independent registered municipal advisor (financial advisor) through a competitive process administered by the Chief Financial Officer at least every five years. Selection of the District's financial advisor should be based on the following:

(1) Experience in providing consulting services to complex Issuers;

(2) Meets all regulatory requirements;

(3) Knowledge and experience in structuring and analyzing large complex issues;

(4) Ability to conduct competitive selection processes to obtain investment products and financial services;

(5) Experience and reputation of assigned personnel; and

(6) Fees and expenses.

The District expects that its financial advisor will provide objective advice and analysis, maintain confidentiality of District financial plans, and fully disclose any potential conflicts of interest.

(b) Bond Counsel. For all debt issues, the District will engage and retain an external bond counsel through a competitive process administered by the Chief Financial Officer at least every five years. All debt issued by the District will include a written opinion by a nationally recognized bond counsel affirming that the District is legally authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. Bond Counsel may also draft the Official Statement in lieu of having a separate disclosure counsel.

(c) Disclosure Counsel. The District may engage and retain, when appropriate, Disclosure Counsel through a competitive process administered by the Chief Financial Officer to prepare official statements for debt issues. Disclosure Counsel will be responsible for ensuring that the official statement complies with all applicable rules regulations and guidelines. Disclosure Counsel will be a nationally recognized firm with extensive experience in public finance.

(d) Underwriters. For negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance. The Chief Financial Officer may establish a pool of qualified underwriters through a competitive process for periods up to five years and may designate one or more firms as eligible to be senior managers and one or more firms as eligible to be co-managers. In addition, the Chief Financial Officer may select one or more underwriters through a Request for Proposal process for a specific transaction without establishing a pool. Criteria to be used in the appointment of qualified underwriters will include:

(1) Quality and applicability of financing ideas;

(2) Demonstrated ability to manage complex financial transactions;

(3) Demonstrated ability to structure debt issues efficiently and effectively;

(4) Demonstrated ability to sell debt to institutional and retail investors;

(5) Demonstrated willingness to put capital at risk;

(6) Experience and reputation of assigned personnel;

(7) Past performance and references; and

(8) Fees and expenses.

The Chief Financial Officer will regularly monitor the performance of the members of the underwriting pool and recommend changes as appropriate.

4-1.614 REPORTING REQUIREMENTS[13]

The Chief Financial Officer will report to the Board of Directors on a quarterly basis the following information:

(a) A summary of outstanding debt obligations to include the series name, original amount of issuance, outstanding principal amount, issue date, maturity dates, interest rates, and annual debt service;

(b) The amount of the net variable rate obligation, percentage as compared to outstanding debt and the corresponding variable rate capacity;

(c) When applicable, a comparison of variable rates to SIFMA or by remarketing agent, if West Basin has more than one agent, to other remarketing agents, with similar programs and market indices; and

(d) Other Considerations if applicable:

(1) Refunding opportunities

(2) Credit Enhancement

(3) Reportable conditions

(4) New debt issuances

4-1.615 DEFINITIONS[14]

(a) Additional Debt Test: A legal earnings test governed by the provisions of a financing document which must be satisfied before revenue obligations secured by the same Pledged Revenues can be issued. Typically, the test requires that historical or estimated future revenues exceed total debt service (existing and proposed) by a certain ratio.

(b) Amortization: The required repayment of principal associated with the issue of revenue obligations.

(c) Arbitrage Rebate: With regard to tax-exempt revenue obligations, arbitrage refers to taxable earnings on proceeds that are greater than earnings would have been at the arbitrage yield. IRS regulations require Issuers to calculate and pay rebate to the United States Treasury on arbitrage earned on proceeds of tax-exempt securities.

(d) Bond Counsel: An attorney (or firm of attorneys) retained by the Issuer to render a legal opinion on the legality and security of a securities offering and its tax exemption or taxability. Bond counsel may prepare authorizing resolutions or ordinances, installment purchase agreements, Indentures, official statements, and other documents required to allow for access the capital markets.

(e) Bond Insurance: An insurance policy guaranteeing the timely payment of principal and interest of all, or a portion, of revenue obligations. In exchange for a Bond Insurance premium, a bond insurer's guarantee can result in a higher credit rating and a lower net borrowing cost for an Issuer.

(f) Bond Proceeds: All funds received from the bond sale inclusive of premium and discount.

(g) Capitalized Interest: A portion of the proceeds of an issue used to pay interest on the revenue obligations for a specified period of time.

(h) Commercial Paper: Short-term (1 to 270 days) promissory notes issued to provide for interim financing of projects or other short-term financing needs through the construction period. Following the completion of the projects, principal and interest due on commercial paper is sometimes redeemed by issuing long-term refunding revenue obligations.

(i) Competitive Sale: A sale of securities by an Issuer in which broker/dealers submit bids to purchase the securities.

(j) Covenants: The enforceable promise by an Issuer to perform or refrain from performing certain actions. With respect to municipal finance obligations, covenants are generally stated in the financing documents.

(k) Credit Enhancement: Credit support purchased by the Issuer to provide enhanced access to the capital markets, frequently resulting in lower expected net borrowing costs. The most common Credit Enhancements consist of Bond Insurance, direct or standby Letters of Credit, and lines of credit.

(l) Debt Service: The sum of the principal and interest from revenue obligations. Debt service may be presented on periodic basis, such as on a twelve month period, fiscal year or calendar year basis.

(m) Defeasance: The establishment of an Escrow that is sufficient to make all remaining debt service payments including redemption premium, if any, to owners of revenue obligations. The incurrence of refunding revenue obligations is typically accompanied by a defeasance of the refunded revenue obligations.

(n) Escrow: A fund established to hold cash and securities pledged to pay debt service on a revenue obligation.

(o) Financial Advisor: A consultant who advises an issuer on finance-related matters, such as structure, timing, marketing, pricing, documentation, and credit ratings. The consultant may also provide advice relating to capital planning and investment management.

(p) Indenture: Legal document describing the terms and conditions of a revenue obligations offering, the rights of the owner thereof, and the obligations of the Issuer to the such owners.

(q) IRS: Internal Revenue Service.

(r) Issuer: A state, political subdivision, agency, or authority that borrows money through the sale of securities.

(s) Leases: Municipal lease agreements are used to finance the purchase or use of real or personal property. Lease agreements can be structured as lease purchase agreements whereby the municipality owns the asset at the end of the lease term or as operating leases whereby the municipality has the option to purchase the asset at the end of the lease term at fair market value. The security for lease obligations is typically general fund revenues but could be a more limited revenue source. Lease agreements can be funded by private companies, such as vendors or finance companies, or through the capital markets.

(t) Letters of Credit – A commitment, usually from a commercial bank, used to provide additional security for notes, installment purchase agreements, commercial paper or other revenue obligations which honor demands for timely payment of debt service upon compliance with pre-established conditions and/or the occurrence of certain events. Draws, if any, are repaid to the bank based on the terms and conditions of the letter of credit terms.

(u) Negotiated Sale: A sale of securities by an issuer whereby the Issuer selects one underwriter to negotiate the terms of the purchase and reoffering of debt obligations to investors by the underwriter or a group of underwriters.

(v) Notes: A short-term obligation of the Issuer to repay a borrowing payable from a defined source of anticipated revenue.

(w) Official Statement: A document distributed by an Issuer which discloses material information about the proposed issue including the purpose of the issue, source of repayment, financing covenants as well as financial, economic, demographic and legal characteristics of the Issuer. An Official Statement is one of the sources that investors rely upon to determine the credit quality of an issue.

(x) Pay-As-You-Go: An Issuer uses existing revenues to fund a project as opposed to funding costs with debt obligations.

(y) Pledged Revenues: The moneys obligated for the payment of debt service and other deposits required by the financing documents. A typical revenue pledge obligates all revenues received for the payment of debt service subject to deductions for maintenance or operating expenses.

(z) Preliminary Official Statement: A preliminary version of the Official Statement used by the Issuer or underwriter to describe the proposed issue of municipal obligations prior to the determination of interest rates and offering prices. A preliminary official statement is one of the sources that investors rely upon in basing their investment decisions.

(aa) Present Value: The value of future cash flows in today's dollars.

(bb) Present Value Savings: Present Value of the differences between two cash flows.

(cc) Private Placement: Securities sold directly to institutions or private investors by a direct negotiated sale instead of a public offering.

(dd) Rating Agencies: Independent firms specializing in providing credit analysis to the investment community. The three primary rating agencies that provide municipal credit ratings are Fitch Ratings, Moody's Investors Service, and Standard & Poor's.

(ee) Ratings: Evaluations of the credit quality of obligations usually made by independent rating services. Ratings generally measure the likelihood of payment of debt service. Higher credit ratings represent lower default risk to investors and typically lower borrowing costs to Issuers.

(ff) Redemption: The repayment of principal on outstanding debt at a specified price and date(s).

(gg) Reserve Fund (or Debt Service Reserve Fund): A fund established at the time revenue obligations are issued to provide additional security in the event that revenues are insufficient to satisfy debt service requirements. A debt service reserve fund can be funded from proceeds of revenue obligations or cash, and in certain circumstances with a surety policy issued by a credit enhancer. Federal tax regulations limit the size of debt service reserve funds funded with tax-exempt.

(hh) Swap: An agreement between two parties to exchange future payments. The most common Swaps for municipal Issuers are interest rates Swaps whereby one party agrees to pay the other a fixed rate, while the other party pays the first party a floating rate.

(ii) Underwriter: A broker/dealer that purchases new offerings of securities from the Issuer and resells them to investors.

(jj) Variable Rate Obligations: A security whose interest rate changes at pre-set intervals over the life of the obligation. Periodic changes in interest rates result from changes in an index or the supply and demand dynamics of a remarketing or auction.

(kk) Variable Rate Capacity: The difference between the maximum net variable rate limitation and the net variable rate obligations.

(ll) Water Infrastructure Finance and Innovative Act (WIFIA) Loans: The WIFIA program is a federal credit program administered by EPA for eligible water and wastewater infrastructure projects. The WIFIA program can fund development and implementation activities for eligible projects, including wastewater conveyance and treatment projects that are eligible for the Clean Water SRF; drinking water treatment and distribution projects that are eligible for the Drinking Water SRF; enhanced energy efficiency projects at drinking water and wastewater facilities; brackish or seawater desalination, aquifer recharge, alternative water supply, and water recycling projects; drought prevention, reduction, or mitigation projects; acquisition of property if it is integral to the project or will mitigate the environmental impact of a project.

4-1.616 SB 1029 COMPLIANCE[15]

SB 1029, signed by Governor Brown on September 12, 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.

(b) 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.

(d) Policy goals related to the issuer's planning goals and objections.

(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.

LIST OF CHANGES TO PART 4, CHAPTER 1. ADMINISTRATIVE MATTERS, ARTICLE 6. DEBT MANAGEMENT POLICIES

[1] Section 4-1.601 amended by Resolution 2-16-1027 on February 22, 2016.
[2] Section 4-1.601 amended by Resolution 2-17-1058 on February 27, 2017.
[3] Section 4-1.602 amended by Resolution 2-17-1058 on February 27, 2017.
[4] Section 4-1.604 amended by Resolution 2-17-1058 on February 27, 2017.
[5] Section 4-1.605 amended by Resolution 2-16-1027 on February 22, 2016.
[6] Section 4-1.605 amended by Resolution 2-17-1058 on February 27, 2017.
[7] Section 4-1.606 amended by Resolution 2-16-1027 on February 22, 2016.
[8] Section 4-1.606 amended by Resolution 2-17-1058 on February 27, 2017.
[9] Section 4-1.607 amended by Resolution 2-16-1027 on February 22, 2016.
[10] Section 4-1.607 amended by Resolution 2-17-1058 on February 27, 2017.
[11] Section 4-1.609 amended by Resolution 2-17-1058 on February 27, 2017.
[12] Section 4-1.613 amended by Resolution 2-16-1027 on February 22, 2016.
[13] Section 4-1.614 amended by Resolution 2-17-1058 on February 27, 2017.
[14] Section 4-1.615 amended by Resolution 2-17-1058 on February 27, 2017.
[15] Section 4-1.616 added by Resolution 2-17-1058 on February 27, 2017.