

## **POLICY A-3: MANAGING WATER DISTRICT DEBT**

This Policy may be amended by the Board as it deems appropriate in the prudent management of the debt of the District.

### **1. Policy Statement**

This policy documents Moulton Niguel Water District's goals and guidelines for the use of debt instruments for financing District water, recycled water, and wastewater infrastructure, projects, and other financing needs. The District recognizes the need to invest in ongoing capital replacement and rehabilitation of its facilities as well as new infrastructure to ensure future viability of services, and that the appropriate use of debt can facilitate the timely construction of such facilities.

The District expects to pay for infrastructure and other projects (e.g., water supply) from a combination of current revenues, available reserves, and prudently issued debt. MNWD recognizes that debt can provide an equitable means of financing projects for its customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to meet financing needs (i) if it meets the goals of equitable treatment of all customers, both current and future; (ii) if it is cost-effective and fiscally prudent, responsible, and diligent under the prevailing economic conditions; and (iii) if there are other important policy reasons. Therefore, all District debt must be approved by the Board of Directors.

To achieve the highest practical credit ratings and endorse prudent financial management, the District is committed to systematic capital planning and long-term financial planning. Evidence of this commitment to long term planning is demonstrated through adoption and periodic adjustment of the District's Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding capital improvement projects over the planning horizon.

This Debt Policy complies with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the District.

## 2. Purpose of Policy

The purpose of this debt management policy is to:

- Establish parameters for issuing debt, including the purposes for which debt can be issued
- Describe how debt and debt proceeds will be managed
- Provide guidance as to the type of debt to be issued
- Provide guidance as to the relationship between the capital improvement plan and debt issuance

## 3. Purpose and Use of Debt

The District will utilize reasonable debt financing to fund long-term improvements and thus ensure equitable allocation of costs. Long-term improvements may include the acquisition of land, facilities, infrastructure, and supplies of water; and enhancements or expansions to existing water, recycled water, and wastewater capacity and facilities.

Debt can be issued to fund the planning, pre-design, design, acquisition of land and/or easements, construction, and related fixtures, equipment and other costs as permitted by law. The District will not issue debt to cover operating needs.

The District may utilize short term financing (including leases) to finance certain essential equipment and vehicles. These assets can range from service vehicles to equipment. The underlying asset must have a minimum useful life of one year or more. Short-term financings, including loans, on bill financing and capital lease purchase agreements, are executed to meet such needs.

The Treasurer, Director of Financial Planning & Innovation and Financial Planning Manager will periodically evaluate the District's existing debt and recommend re-financings or prepayment (refunding) when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to pay off other obligations, such as commercial paper or loans.

The General Manager, Treasurer, Director of Financial Planning & Innovation and Financial Planning Manager and District Financial Advisor, as appropriate, shall analyze any debt financing proposal to determine its benefit to the District and if it complies with the District's long-term financial planning objectives, including maintaining or improving credit ratings.

The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized. Debt may only be issued upon Board authorization. The weighted average maturity of the debt (or the portion of the debt allocated to a project or projects) will not exceed the average useful life of the project(s) to be financed by more than 20%. The final maturity of bonds or state or federal loan debt shall be limited to 35 years after the date of substantial completion of the project(s).

The District will provide for a periodic review of its financial performance and review its performance relative to the financial policies outlined herein. These financial policies will be taken into account during the capital planning, budgeting, and rate setting process. Necessary appropriations for annual debt service requirements will be routinely included in the District's annual budget. The District will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors, to ensure future capital market access at the lowest possible interest rates.

#### 4. District Policies Provide Guidance for Debt Management

**General.** The District's Debt Management Policy, Reserve Policy and Investment Policy all guide the budgeting and capital improvement planning process. As such, the following principles outline the District's approach to debt management:

The District will issue debt only in the case where there is an identified source of repayment. Debt will be issued when:

- Projected existing revenues pay for the proposed debt service, and
- As necessary, other revenues have been identified to pay for the proposed debt, and
- Bond covenants will be achieved.

Debt will be structured for the shortest period possible, consistent with an equitable allocation of costs to current and future users. Borrowings by the District should be of a duration that does not exceed the average useful life of the project to be financed by more than 20 percent and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 20-30 years.

The District may issue bonds bearing a fixed or variable interest rate. When appropriate, the District may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such variable rate bonds will be limited to no more than 20

percent of outstanding debt.

The proceeds of the bond sales will be invested until used for the intended project(s) to ensure effective use of the public funds. The investments will be made to obtain a return, while maintaining the lowest level of risk. The District's Investment Policy and the specific bond indentures govern objectives and criteria for investment of bond proceeds. The Treasurer, Director of Financial Planning & Innovation and Financial Planning Manager will oversee the investment of bond proceeds, while complying with arbitrage and tax provisions.

The Financial Planning Manager and Controller will monitor dedicated debt reserve fund balances and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a current refunding must outweigh the cost of issuing new debt. A potential refunding will be assessed in combination with any new capital projects requiring financing, and the benefits of the refunding will be evaluated in relation to its costs and risks.

Debt can be refunded to achieve any of the following objectives:

- Reduce future interest costs or restructure future debt service in response to evolving conditions regarding anticipated revenue sources;
  - Current refundings (that is, refinancings within 90 days of the call date of the bonds to be refunded) must meet a minimum net present value savings target of at least 3 percent of refunded bonds
- Restructure the legal requirements and/or covenants of the original issue to reflect more closely the changing conditions of the District, current market standards, or the type of debt.

## **5. District Will Maintain Acceptable Debt Service Coverage**

The District will not finance debt unless the proposed obligation, when combined with all existing debts, results in acceptable debt service coverage ratios. To help determine the affordability of proposed revenue bonds, the District will compare projected annual net revenues after payment of operating and maintenance (O&M expense) to estimated annual debt service to estimate the resulting debt service coverage ratio (DCR). DCR is the amount of cash flow available to meet annual interest and principal payment on debt.

To keep its high-quality credit rating, the District will target a DCR at or above 1.75 and also ensure meeting 1.25, as applicable bond covenants may require.

## **6. Financial Managers Will Pursue Positive Credit Rating on Debt Issuance**

The General Manager, Director of Financial Planning & Innovation and Financial Planning Manager, with the District's Financial Advisor as appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the Board. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt.

## **7. Managers and Financial Advisors Will Structure District Debt**

The District will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. "Backloading" of debt service will be considered only when such structuring is beneficial to the District's aggregate overall debt payment schedule.

The Financial Planning Manager, Director of Financial Planning & Innovation and General Manager, with the advice of the District's Financial Advisor, will evaluate and recommend to the Board the use of a call option, if any, and call protection period for each issuance. A call option, or optional redemption provision, gives the District the right to prepay or retire debt prior to its stated maturity. This option may permit the District to achieve interest savings in the future through refunding of the bonds. Because the cost of call options can vary widely, depending on market conditions, an evaluation of factors, such as the call premium, time until the bonds may be called at a premium or at par, and interest rate volatility will guide the decision to issue bonds with a call option. Generally, 30-year tax exempt municipal borrowings are structured with a 10-year call. From time to time, shorter call options (less than 10 years) may also be used.

## **8. Types of Debt**

The District may use revenue bonds, Certificates of Participation (COPs), variable rate bonds, state revolving fund (SRF) loans, federal loans (including loans through the Water Infrastructure Finance and Innovation Act (WIFIA) program), bank loans, notes, commercial paper, direct placements, capital leases, lease-purchase financing, and on bill financing. The District may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy. A description of each type of debt is provided in Appendix A.

In addition to the long and short-term financing instruments, the District may also consider joint arrangements with other governmental agencies. Communication and coordination will be made with local governments regarding cost sharing in potential joint projects, including leveraging grants and funding sources.

The District is authorized to join with other special districts and/or municipal agencies to create a separate entity, a Joint Powers Authority (JPA), to issue debt on behalf of the District, the special district or municipality. The District will only be liable for its share of debt service, as specified in a contract executed in connection with the joint venture debt.

### **9. Board May Consider Credit Enhancement to Establish or Improve Credit Rating**

The Treasurer and General Manager will recommend to the Board the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the General Manager and/or Treasurer (with the advice of counsel and the District's Financial Advisor), the use of such credit enhancement furthers the District's overall financial objectives.

Unless there are market requirements or it is important to increase credit ratings, the District will not fund a debt service reserve fund as part of its debt issuance. To the extent the Treasurer or Financial Planning Manager determine a debt service reserve fund is advantageous, the debt reserves will be maintained in keeping with the District's Reserve Policy.

Interest may be capitalized for the construction period of a revenue-producing project, so that debt service expense does not begin until the project is expected to be operational and producing revenues. For lease back arrangements, such as those used for lease revenue bond transactions, interest may be capitalized for the construction period, until the asset is operational. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period. Under all circumstances, interest may not be capitalized for any period longer than that permitted under Federal tax law to the extent such interest relates to tax exempt debt for Federal tax law purposes.

### 10. District Will Maintain Highest Possible Credit Ratings

The District will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the District's policy objectives.

Each proposal for additional debt will be analyzed for its impact upon the District's credit rating on outstanding debt.

### 11. Any Major Credit Rating Agencies May be Used

The District may seek credit ratings from any of the major credit rating agencies – S&P Global Ratings, Moody's Investors Service, and Fitch Ratings, as appropriate. The District will also evaluate the value of additional ratings on a case-by-case basis (e.g., Kroll Rating Services). District staff will provide periodic updates to the rating agencies, both formal and informal, on the District's general financial condition and coordinate meetings and presentations with a new debt issuance when necessary.

The General Manager, Director of Financial Planning & Innovation, and Financial Planning Manager, working with the District's financial advisor, shall determine whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

### 12. The Best Method of Sale Will be Used to Sell Municipal Bonds

The District will select the method of sale that best fits the type of bonds being sold, market conditions, and the desire to structure bond maturities to improve the performance of the debt portfolio. Three primary methods exist for the sale of municipal debt:

- **Competitive sale.** Bonds will be marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on its best bid for its securities. The District will award the sale of the competitively sold bonds on a true interest cost (TIC) basis. Due to this policy, the General Manager or Treasurer may sign the bid form on behalf of the District to fix the interest rates on bonds sold on a competitive basis.
- **Negotiated sale.** The General Manager, Director of Financial Planning & Innovation and Financial Planning Manager will select the underwriter, or team of underwriters, of its securities before the bond sale, subject to Board approval. The District works with the underwriter to bring the issue to market

and negotiates all rates and terms of the sale. Before the sale, the General Manager, with advice from the District's financial advisor, will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale itself will be conducted. With this policy, the General Manager or Treasurer may sign the bond purchase agreement on behalf of the District to fix the interest rates on bonds sold on a negotiated basis.

- **Private placement.** The District may elect to issue debt on a private placement basis. A private placement would be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that financing be completed before access to the public market is available.

### **13. Financial Planning Manager Will Make Debt Financing Recommendations to the Board**

In developing such recommendations, the Financial Planning Manager shall consider the need for debt financing and assess progress on the current capital improvement program (CIP) and any other program/improvement deemed necessary by the District. The Board authorizes and approves debt service-related recommendations and proposals and must approve all debt issuances.

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

Debt is to be issued by the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State of California Government Code (CGC) §54300 et seq.



## 14. Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the District's annual operations budget.

It is a policy goal of the District to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

## 15. Internal Control Procedures

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

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

- any continuing disclosure undertakings under SEC Rule 15c2-12 (including current and future amendments to Rule 15c2-12),
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and;
- its investment policies as they relate to the investment of bond proceeds.

It is the policy of the District to ensure that proceeds of debt are spent only on lawful and intended uses. Bond proceeds will be deposited and recorded in separate accounts.

Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the Issuer will submit written requisitions for such proceeds. The District's trustee

will administer the disbursement of bond proceeds pursuant to the applicable Indenture of Trust or similar document. Requisition for reimbursement will be submitted only after obtaining the signature of either the District's General Manager, Controller or Director of Financial Planning & Innovation. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Controller shall retain records of all expenditures of proceeds through the final payment date for the debt.

### **16. Bond and Disclosure Counsel**

As part of its responsibility to oversee and coordinate the marketing of all District indebtedness, the General Manager, Director of Financial Planning & Innovation, and Financial Planning Manager shall make recommendations for approval by the Board on the retention of bond and disclosure counsel (which may be the same firm).

Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing, while disclosure counsel is responsible for preparing the preliminary and final official statement (or other disclosure documents) and assisting the District with ongoing disclosure responsibilities. All debt issued by the District will include a written opinion by bond counsel affirming that the District is 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.

### **17. Financial Advisors**

The District will select an independent registered municipal advisor or advisors (financial advisors) to help execute all debt transactions. To avoid any conflict of interest, financial advisor firms shall not also serve as underwriters of bonds. Financial advisors shall be selected through a competitive process after a review of proposals by the staff and approved by the Board.

The financial advisor will:

- Advise the District on refunding opportunities for current outstanding debt.
- Evaluate the merits of competitive, negotiated or private placement of new debt.
- Determine the most appropriate structure to ensure effective pricing that meets the District's near-term and long-term cash flow needs.
- Assist the District in the development of financial plans and policies.

The financial advisor will work with all parties involved in the financing transaction, including the District's bond counsel, trustee, underwriters, credit liquidity providers, to develop and monitor the financing schedule and preparation of the Official Statement. The financial advisor will help the District develop and distribute bid specifications for: desired services, trustee and paying agents, printing, remarketing and credit liquidity service providers, and assist the District in its review process. The District also expects its financial advisor to provide objective advice and analysis, maintain confidentiality of the District's financial plans, and be free from any conflict of interest.

### **18. Underwriters**

For negotiated sales, the District will generally select or pre-qualify underwriters through a competitive process. This process may include a request for proposal or qualifications to all firms considered appropriate for the underwriting of a particular issue or type of bonds. The Financial Planning Manager, in consultation with the District's financial advisor, will determine the appropriate method to evaluate the underwriter submittals and then select or qualify firms on that basis, and recommend the firm or firms to function as the District's underwriter. The Board will approve the underwriter(s) to be used for each transaction or a series of transactions. The District is not bound by any underwriting agreement; oral or written, to which it was not a party.

### **19. The District Will Comply With Federal Arbitrage and Rebate Regulations**

The Financial Planning Manager and Controller will take all necessary steps to minimize any rebate liability through proactive management in the structure and oversight of the District's debt. All District tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations.

The Controller and Financial Planning Manager will:

- Monitor 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 shall meet the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be reasonably expected that 85% of the proceeds will be expended within the three-year temporary period.
- Monitor the investment of bond proceeds with awareness of rules pertaining to

yield restrictions. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.

- Contract with outside arbitrage consultants to establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.

The District will include any arbitrage rebate liability in its Annual Comprehensive Financial Report (ACFR).

## 20. Continuing Disclosure

The District will meet continuing disclosure requirements in a timely and comprehensive manner, as required by the Securities Exchange Commission (SEC) Rule 15c2-12 and consistent with the District's Disclosure Procedures Policy. This includes the amendments to Rule 15c2-12 adopted in 2018. The Financial Planning Manager or Controller shall provide continuing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system. The District will annually provide financial information and operating data within 9 months of the end of its fiscal year, along with notice of certain material events required under Rule 15c2-12. In addition, the District may provide voluntary disclosures if such disclosure would be in the District's interest.

The District will keep current with any changes in both the administrative aspects of its filing requirements and the national repositories responsible for ensuring issuer compliance with the continuing disclosure undertakings. In the event a 'material event' occurs requiring immediate disclosure, the Financial Planning Manager and Controller will ensure information is posted on EMMA.

## 21. Compliance with Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the District is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of funds to meet debt service payments
- Timely transfer of debt service payments to the trustee or paying agent
- Compliance with insurance requirements
- Compliance with rate covenants

- Compliance with all other bond covenants, including maintaining debt service coverage ratios as required

On an annual basis, the Controller will prepare all required debt related schedules and footnotes for inclusion in the District's ACFR. The ACFR shall describe in detail all funds and fund balances established as part of any direct debt financing of the District.

The ACFR may also contain a report detailing any material or rate covenants contained in any direct offering of the District and whether or not such covenants have been satisfied.

## **22. Updates to this Policy**

On an as needed based, the General Manager will update and revise this Policy, which shall be reviewed and adopted by the Board.

## APPENDIX A: Types of Debt and Uses

**Capital Lease** - Capital lease debt may be considered to finance capital improvements, including vehicles and equipment with an expected useful life of less than ten years. A capital lease is a lease in which the lessor finances the lease and all other rights of ownership transfer to the District.

**Derivatives** - The District may choose to enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The District will only consider the use of derivative products on a case-by-case basis and consistent with state statute and financial prudence. Before entering into such contracts or agreements, the District will review the risks and benefits of such financing techniques and expected impacts on the District's long-term financial operations and credit ratings. The District shall not execute derivative contracts with terms exceeding 10 years.

**Lease-Purchase Financing** - The use of lease-purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option. The lifetime cost of a lease may be higher than other financing options or pay-go purchases. Nevertheless, lease-purchase agreements may be used by the District as funding options for capital acquisitions if circumstances warrant.

**On Bill Financing** - The District may choose to enter into low or zero interest financing agreements with utility providers who offer On Bill Financing. This type of financing offers financing of business improvements at little to no interest and no fees or costs to the District. Repayment amounts will be based on projected savings associated with the project and will be part of the monthly bill received from the issuer. Financing terms can range from three to ten years depending on the project to be financed.

**Revenue Bonds** - Revenue bonds issued by the District are long term obligations issued to fund a specific project or purpose. The District will generally issue revenue bonds on a fixed interest rate basis, wherein at the time of the bond sale all interest rates are known and do not change while those bonds are outstanding.

Particular conditions may arise where the District would consider the use of variable interest rate bonds. Variable interest rate bonds have interest rates that reset on a periodic basis (e.g. daily, weekly, monthly, etc.). Revenue bonds are payable solely from District revenues in accordance with the agreed upon bond covenants.

**Variable Rate Debt** - Variable rate debt is an alternative to fixed rate debt. It may be appropriate to issue short-term or long-term variable rate debt to diversify the District's debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. Variable rate debt typically has a lower cost of borrowing than fixed rate financing and shorter maturities or rate reset periods in the range of 1 to 35 days. The District may consider variable rate debt in certain instances. The District will maintain a conservative level of outstanding variable debt not exceeding 20% of outstanding debt.

Under no circumstances will the District issue variable rate debt solely for the purpose of earning arbitrage.

**Short-Term Debt** - Pending the issuance of bonds the Board may authorize the issuance of short-term debt. The Financial Planning Manager will determine and recommend the least costly method for short-term borrowing. Such debt shall be authorized by resolution of the Board.

Short-term debt may be structured as:

- **Bank Loans and Notes** - Use of short-term borrowing, such as bank loans and notes, will be undertaken only if available cash or reserves are insufficient to meet both project needs and current obligations.
- **Bond Anticipation Notes (BANs)** - BANs are short-term obligations that will be repaid by proceeds of a subsequent long-term bond issue. The District may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, financing for such notes must be planned for and determined to be feasible by the General Manager and Financial Planning Manager, in consultation with the District's financial advisor.
- **Commercial Paper (CP)** - CP is a form of debt that has maturities up to 270 days although it may be rolled to a subsequent maturity date. Tax Exempt Commercial Paper shall not be issued for capital programs unless it is of sufficient economic size, as determined by the General Manager, Director of Financial Planning & Innovation, and Financial Planning Manager, in consultation with the District's Financial Advisor.

- Tax and Revenue Anticipation Notes (TRANS) - TRANS are short term notes secured by a pledge of taxes and other revenues in the current fiscal year. TRANS, if issued, will constitute direct obligations of the District. All TRANS will be redeemed in the same fiscal year in which they are issued.
- Revolving Line of Credit – A revolving line of credit is a private lending agreement with a bank under which the District can borrow money from the bank up to a specified amount at pre-agreed upon terms. When the District repays the bank, it renews its borrowing capacity on the line of credit so that the District can borrow on the line of credit again. The District may choose to enter into a revolving line of credit agreement as a source of interim financing.
- Letters of Credit – The District shall have the ability to enter into a letter-of-credit agreement as appropriate. Only those financial institutions with short-term credit ratings of VMIG 1/A-1/F1 by Moody’s Investor Services, S&P Global Ratings and Fitch Ratings, may participate in the District’s letter of credit agreements.

**State Revolving Funds** - A State Revolving Fund (SRF) loan is a low or zero interest loan program for the construction of wastewater treatment and sewage collection systems, water recycling facilities, storm water projects, implementation of nonpoint source and storm drainage pollution control management programs, and for the development and implementation of estuary conservation and management programs. SRF debt service payments are factored into debt service coverage ratios as defined by applicable water and wastewater indentures.

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 for the balance. The SRF loan interest rate is calculated by taking half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds sale. The term of the loans can be 20 to 30 years. When compared to traditional bond financing, the District may realize substantial savings through the use of SRF loans.

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.

SRF Loans may have different legal terms and covenants than the District’s publicly issued obligations. In analyzing the use of SRF loans, care will be taken that terms and covenants of the SRF loan which differ from the District’s publicly issued obligations are carefully weighed as to the benefits and potential risks.





## POLICY A-3: MANAGING WATER DISTRICT DEBT

See also:  
POL A-7

6.13.2024  
Page | 17  
Last Revised:  
5.16.2024

**WIFIA Loans** – The Environmental Protection Agency (EPA) administers loans under the Water Infrastructure Finance and Innovation Act (WIFIA) to provide low-cost financing for water projects. The loans are provided on a competitive basis, and borrowers must submit applications to EPA as EPA makes funds available. The loans are based on treasury rates and may have terms of up to 35 years from substantial completion of the project. WIFIA loans may fund up to 49% of eligible project costs.