



Debt Management Policy

Approved June 17, 2025

This page intentionally left blank.

TABLE OF CONTENTS

1.0	AUTHORITY	1
2.0	SCOPE.....	1
3.0	POLICY STATEMENT	1
3.1	Capital Improvement Program Integration.....	1
3.2	Purpose and Use of Debt.....	2
4.0	Funding and Financing Alternatives	2
4.1	Cash	2
4.2	Grants	2
4.3	Interfund Borrowing.....	2
4.4	Long-Term Debt.....	3
4.5	Refunding Debt.....	5
4.6	Short-Term Debt.....	5
4.7	Prohibited Debt	6
5.0	DEBT STRUCTURE PRACTICES	6
5.1	Term	6
5.2	Capitalized Interest.....	6
5.3	Lien Levels	6
5.4	Rate Covenant	6
5.5	Additional Bonds Test.....	7
5.6	Debt Service Structure	7
5.7	Call Provisions.....	7
5.8	Credit Enhancements	7
6.0	DEBT ISSUANCE PRACTICES	8
6.1	Consultant Selection.....	8
6.2	Municipal Advisors	8
6.3	Underwriters	9
6.4	Method of Sale	9
6.5	Refundings.....	10
6.6	Credit Ratings	10
7.0	DEBT MANAGEMENT	10
7.1	Market Relationships	10
7.2	Federal Arbitrage and Rebate Regulations	10
7.3	Continuing Disclosure.....	11
7.4	Compliance with Bond Covenants.....	11
8.0	DEBT MANAGEMENT POLICY REVIEW.....	12

Las Virgenes Municipal Water District Debt Management Policy

1.0 AUTHORITY

This Debt Policy was adopted by the Board of Directors of the Las Virgenes Municipal Water District at its regular meeting on June 17, 2025. Any modifications to this policy must be approved by the Board of Directors at a duly noticed public meeting.

2.0 SCOPE

This debt policy sets forth debt management objectives for the District and establishes general parameters for issuing and administering the District's debt. This policy applies to all debt issued or incurred by the District, including, but not limited to, loans, private placements, municipal bonds, and credit lines. This policy does not cover credit or purchasing card debt or pension and Other Post-Employment Benefits (OPEB).

3.0 POLICY STATEMENT

Las Virgenes Municipal Water District favors a pay-as-you-go program for capital projects. However, the District will consider debt financing under the following conditions:

- 1) When the project's expected useful life will exceed the term of the financing.
- 2) When the project revenues or specific resources will be sufficient to service the long-term debt.

The District shall consider the following factors prior to issuing debt:

- 1) Revenues have been identified to service the long-term debt.
- 2) Impact on District reserves and operating budget.
- 3) The impact on customer rates.
- 4) The project securing the debt is of the type that will support a good credit rating.
- 5) Market conditions present favorable financing terms.
- 6) The project is mandated to meet State or Federal standards.
- 7) The project is required to meet current or projected capacity requirements.
- 8) The project's useful life.
- 9) The project's cost.

3.1 Capital Improvement Program Integration

The District's multi-year Capital Improvement Program (CIP), which identifies the projects and

the appropriate funding mechanisms to pay for them, shall be used in combination with the financial and budget policies and this Policy to ensure the proper allocation and financing of eligible projects. The CIP and its related policies set priorities and strategies for allocating and tracking funding, while the Debt Policy provides policy direction and limitations for proposed financings.

3.2 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 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.

4.0 FUNDING AND FINANCING ALTERNATIVES

The Deputy Treasurer, and Director of Finance and Technology will investigate all possible financing alternatives including, but not limited to, grants, loans, and bonds.

4.1 Cash

The District favors pay-as-you-go and funds a significant portion of its capital projects through this strategy that utilizes current cash on hand.

4.2 Grants

The District will first look to grants to supplement capital project financing.

4.3 Interfund Borrowing

The District may borrow funds from an enterprise that has sufficient cash in excess of the District's reserve policy for the following purposes:

- 1) For short-term borrowing due to imbalances caused by timing of grants or other borrowing methods.
- 2) For projects under \$10 million.
- 3) For repayment terms of five years or less.

For interfund borrowing, the Director of Finance shall determine that the loan will not negatively impact the enterprise that is loaning the funds and that the loan will not cause

reserve levels to be below policy limits. Interfund loans will have a floating interest rate based on the “Total Portfolio Yield” as reported on each month’s Monthly Cash & Investment Report, a loan agreement, and a repayment schedule approved by the Board of Directors.

4.4 Long-Term Debt

The District will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term investments, mitigating needed rate increases, and helping to ensure that existing and future ratepayers fund an appropriate share of long-lived assets. Long-term investments include the acquisition of land, facilities, works, improvements and supplies of water; and enhancements or enlargements to existing capacity and facilities for obtaining, importing, transporting and delivering additional quantities of water, including water reclamation, water recycling, and other water related infrastructure. These investments are typically included in the District’s Capital Improvement Program and Infrastructure Investment Program. Bond proceeds can be issued to fund the planning, design, land acquisition, construction, attached fixtures or equipment and movable pieces or equipment, or other costs as permitted by law.

The District will issue New Money Debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with existing debt service covered by such existing revenues, or (ii) additional revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt (including anticipated revenues from future rate increases).

Debt issuance for a capital project will not be considered unless such project has been incorporated into the District’s capital planning process, or as otherwise approved by the Board.

The District May use the following types of long term debt:

- **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** – Derivatives are 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 not enter into derivatives.
- **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.

- **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 may 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 typically 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.
- **California Water State Revolving Funds Loans** - The State Revolving Fund (SRF) loan program is a low interest loan program for the construction of water infrastructure. 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 typically calculated by taking half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds issuance. The term of the loans can be 20 years or, if applicable, an extended financing term of 30 years. When compared to traditional bond financing, the District may realize savings as a result of the 20-year or 30-year amortization period of the SRF Loans, but should consider the timing, legal terms and covenants, and overall costs of administering an SRF loan as opposed to other forms of debt. Legal terms and covenants of SRF loans should be carefully analyzed as they compare to the District's other parity-lien terms and covenants to avoid more onerous or conflicting provisions. SRF Loans may provide additional assistance in the form of principal forgiveness, or may incorporate a grant component. 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.
- **Water Infrastructure Finance and Innovation Act (WIFIA) Loans** - WIFIA is a competitive federal loan program offering funding in the form of low-cost loans for eligible projects. WIFIA loans are eligible to finance up to 49 percent of Eligible Project Costs and can be used in conjunction with other forms of funding to pay for eligible

capital projects. Repayment of WIFIA loans can be developed in a flexible manner to accommodate specific borrower needs with a final repayment period up to 35 years after substantial completion of the project. While WIFIA loans are generally structured with terms and covenants similar to those of the bonds which are on parity, care needs to be taken to ensure that terms and covenants under the WIFIA loan do not conflict with existing terms and covenants and are advantageous for the District.

4.5 Refunding Debt

Refundings are important debt management tools for the District. They are commonly used to achieve debt service (interest cost) savings, remove or change bond covenants, or restructure debt service obligations. Prior to the Tax Cuts and Jobs Act of 2017, Federal Tax law allowed only one advance refunding after the initial issuance. With the passage of the Tax Cuts and Jobs Act of 2017, municipal entities are no longer allowed to advance refund bonds on a tax-exempt basis, necessitating diligence in the review and monitoring of refunding opportunities.

To the extent that debt having fixed interest rates originally structured with a long-term amortization structure (10 years or greater) is refunded with fixed rate debt, the District will not generally issue refunding debt which extends the final maturity of the refinanced debt. Extending the final maturity may occur when warranted, such as restructuring of debt to match debt amortization with the useful life of the financed assets.

4.6 Short-Term Debt

Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues, where anticipated revenues are defined as an assured revenue source with the anticipated amount based on conservative estimates or until the structure of the take-out financing is finalized. The District will determine and utilize the least costly method for short-term borrowing. The District may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

- **Bond Anticipation Notes (BANs)** are short-term notes issued prior to the issuance of long-term debt. It is anticipated that BANs will be retired, or taken-out, with long term debt or commercial paper. BANs will be issued only when there is no better alternative to reduce the overall cost of a financing program.
- **Lines of Credit** shall be considered as an alternative to other short-term borrowing options. Lines of Credit are short-term facilities that are typically entered into directly with a bank allowing for periodic draws on the facility to fund capital project costs.
- **Commercial Paper (CP)** is a form of debt that has maturities up to 270 days although it may be rolled to a subsequent maturity date. CP is typically secured by a bank facility (Letter of Credit) and is remarketing by a commercial paper dealer. CP can be issued on an as-needed basis to fund capital projects needs.

4.7 Prohibited Debt

The District shall not issue debt for purposes not expressly allowable under this policy. The District shall not utilize financing methods not expressly allowed under this policy.

5.0 DEBT STRUCTURE PRACTICES

The District shall establish all terms and conditions relating to the issuance of bonds Unless otherwise authorized by the District, the following shall serve as bond requirements.

5.1 Term

All capital improvements financed through the issuance of debt will be financed for a period generally not to exceed the average useful life of that which is being financed. At no time will the financing exceed 100% of the expected average useful life of the assets being financed.

5.2 Capitalized Interest

The nature of the District's revenue stream is such that funds are generally continuously available and the use of capitalized interest should not normally be necessary. However, certain types of financings may require the use of capitalized interest from the issuance date until the District has constructive use/benefit of the financed project. Unless otherwise required, the District will avoid the use of capitalized interest to obviate unnecessarily increasing the bond size. In general, interest shall not be funded (capitalized) beyond three (3) years or a shorter period when based upon project needs or if further restricted by statute. The District may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds.

5.3 Lien Levels

Senior and Junior Liens for each revenue source will be utilized in a manner that will maximize the most critical constraint, typically either cost or capacity, thus allowing for the most beneficial use of the revenue source securing the bond. Projects chosen for priority financing, based on funding availability and proposed timing, will generally be subject to the most senior lien of the bond series.

5.4 Rate Covenant

A common legal feature of revenue bonds is a rate covenant. A rate covenant provides a minimum debt service coverage ratio above which the District must set its rates and charges. When setting its budget and rates & charges, the District must take care in analyzing its proposed and existing rate covenants to ensure compliance as certain types of obligations (such as SRF loans) may contain rate covenants differing from those of the District's other obligations.

For planning purposes, the District will target a level at which the District's net revenues are at

least one and a half times (1.50x) the total debt service within any year.

5.5 Additional Bonds Test

A common legal feature of bonds is an Additional Bonds Test (ABT). The ABT is a test that must be met prior to the issuance of new bonds or entering into new debt obligations. The ABT may contain several tests by which debt service coverage is measured and determined as to whether new debt can be issued. The District must take care when issuing new debt to ensure compliance with its ABT as different types of obligations may contain different ABT tests.

5.6 Debt Service Structure

Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The District will amortize its debt within each lien to achieve overall level debt service. The District may utilize alternate repayment schedules after giving consideration to bonding capacity constraints. The District shall avoid the use of bullet or balloon maturities except in those instances where these maturities achieve one of the District's stated goals, such as minimizing annual debt service or leveling annual existing debt service, among others.

5.7 Call Provisions

In general, the District's securities will include a call feature, which is no later than ten (10) years from the date of delivery of the bonds. The District will avoid the sale of non-callable bonds absent careful evaluation by the District with respect to the value of the call option. If the District were to issue taxable bonds, the District will carefully consider the financial impacts of a 10 year call, a make-whole call, or non-callable debt.

5.8 Credit Enhancements

The District will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. The District will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

- 1) **Bond Insurance.** The District may purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.
- 2) **Debt Service Reserves.** When required, a reserve fund equal to the lesser of 10% of the original principal amount of the bonds, maximum annual debt service, or 125% of average annual debt service, and if permitted, 10% of par value of bonds outstanding, (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of

credit enhancement providers and/or rating agencies. The District may purchase reserve equivalents (e.g., a reserve fund surety policy) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis, the creditworthiness of the surety provider and market acceptance.

6.0 DEBT ISSUANCE PRACTICES

The Financing Team is the working group of staff and consultants necessary to complete a debt issuance. The team includes bond counsel, disclosure counsel, underwriter, and financial advisor, and may include trustee, pricing consultants, and/or arbitrage analyst. The team also typically includes the General Manager, Deputy Treasurer, Director of Finance and Technology, and the Finance Manager.

6.1 Consultant Selection

The District will consider the professional qualifications and experience of consultants as it relates to the specific debt issuance. The District recognizes the benefits of long-term relationships with the financial advisor and bond counsel and will seek proposals for these services at least once every ten years. All other consultants will be reviewed with each debt issuance to ensure that the expertise for the particular debt instrument is available.

6.2 Municipal Advisors

The District will select independent municipal advisors. While serving as the District's municipal advisor, a firm may not also engage in the underwriting of the District debt 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. Municipal advisors shall be selected through a competitive qualification process after a review of proposals by the General Manager, Deputy Treasurer, Director of Finance and Technology,, and/or other staff, and is subject to approval by the Board.

The municipal advisor will advise the District on new money and refunding opportunities for current outstanding debt, as well as assist in evaluating the merits of competitive sales, negotiated sales, direct purchase/private placements, and Federal/State loans in determining the most appropriate structure to ensure effective pricing that meets the District's near-term and long-term cash flow needs. The municipal advisor will work with all parties involved in the financing transaction, including the District's bond counsel, trustee, underwriters, and credit liquidity providers, to develop and monitor the financing schedule and preparation of the Official Statement. The municipal advisor will assist the District in developing and distributing bid specifications for desired services, such as, trustee and paying agents, printing, remarketing and credit liquidity service providers, and assist the District in its review process. The District also expects that its municipal advisor will provide objective advice and analysis, maintain confidentiality of the District's financial plans, and be free from any material conflict

of interest.

6.3 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 firms considered appropriate for the underwriting of a particular issue or type of bonds. The Deputy Treasurer, and Director of Finance and Technology will determine the appropriate method to evaluate the underwriter submittals and then select or qualify firms on that basis. The District will not be bound by the terms and conditions of any underwriting agreements, oral or written, to which it was not a party.

6.4 Method of Sale

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, Deputy Treasurer, Director of Finance and Technology or Finance Manager 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, Deputy Treasurer, Director of Finance and Technology and Finance 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 Deputy Treasurer and Director of Finance and Technology, with advice from the District's municipal 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, Deputy Treasurer or Director of Finance and Technology 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.
- **Federal / State Loans.** The District may also choose to finance certain of its eligible capital improvement projects through Federal and State loans, such as WIFIA loans and SRF loans. Such methods will be weighed and analyzed versus the other forms of financing to determine the benefits and considerations to the District.

6.5 Refundings

The Deputy Treasurer, Director of Finance and Technology, and the Municipal Advisor will periodically review the economics of refunding the District's outstanding 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% 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.

6.6 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.

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.

7.0 DEBT MANAGEMENT

7.1 Market Relationships

The Deputy Treasurer and Director of Finance and Technology will be responsible for maintaining relationships with investors, credit analysts, and rating agencies.

7.2 Federal Arbitrage and Rebate Regulations

The Deputy Treasurer, Director of Finance and Technology and Finance Manager 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 Deputy Treasurer, Director of Finance and Technology and Finance 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 Annual Financial Report.

7.3 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 Finance Manager 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 Deputy Treasurer, Director of Finance and Technology and Finance Manager will ensure information is posted on EMMA.

7.4 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 revenues 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 Deputy Treasurer, Director of Finance and Technology and Finance Manager will prepare all required debt related schedules and footnotes for inclusion in the District's Annual Comprehensive Financial Report. The Annual Comprehensive Financial Report shall describe in detail all funds and fund balances established as part of any direct debt financing of the District.

The Annual Comprehensive Financial Report 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.

8.0 DEBT MANAGEMENT POLICY REVIEW

The Deputy Treasurer, Director of Finance and Technology and Finance Manager shall review this Debt Management Policy at a minimum of every five (5) years and recommend any changes to the Board.