

# DIABLO WATER DISTRICT

## Amended and Restated Debt Management Policy

This Amended and Restated Debt Management Policy (“Debt Policy”) of Diablo Water District (“District”) was approved by the District’s Board of Directors on April 27, 2022. The Debt Policy may be amended by the Board of Directors as it deems appropriate from time to time in the prudent management of the debt of the District. Any approval of debt by the Board of Directors that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy. This Debt Policy amends and restates the District’s Debt Management Policy approved by the District’s Board of Directors on September 25, 2019, in its entirety.

### 1. Findings

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

The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District’s sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District’s credit worthiness. Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the District.
- Ensure that the District’s debt is consistent with the District’s planning goals and objectives, and capital improvement program or budgets, as applicable.

### 2. Policies

#### A. Purposes For Which Debt May Be Issued

(i) Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land to be owned and operated by the District.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.

- When the project to be financed will provide benefit to constituents over multiple years.
  - When total debt does not constitute an unreasonable burden to the District and its ratepayers.
  - When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.
- (b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
- (c) The District may use long-term debt financings subject to the following conditions:
- The project to be financed must be approved by the Board of Directors.
  - The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
  - The District estimates that sufficient revenues will be available to service the debt through its maturity.
  - The District determines that the issuance of the debt will comply with applicable state and federal law.

(ii) Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

(iii) Financings on Behalf of Other Entities. The District may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of District. In such cases, the District shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower, and that the issuance of such debt is consistent with the policies set forth herein.

## **B. Types of Debt**

For purposes of this Debt Policy, "debt" shall be interpreted broadly to mean loans, bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Debt Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any statutory or constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

The following types of debt are allowable under this Debt Policy:

- State or Federal loans, including Revolving Fund loans
- loans and lines of credit with banks and other financial institutions
- general obligation bonds
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions
- other revenue bonds and certificates of participation
- tax and revenue anticipation notes
- land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- refunding bonds, notes, loans, and other obligations

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.

Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

### **C. Relationship of Debt to Capital Improvement Program and Budget**

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Debt 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 avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available

when needed in furtherance of the District's public purposes.

The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

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, facilities reserve fund, or other fund from which capital improvements are paid for.

#### **D. 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 policy goal of the District to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the District.

#### **E. Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt 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,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues; and
- the District's 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. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds. The District will submit a requisition only after obtaining the signature of the General Manager. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the person performing the function of chief financial officer of the District shall retain records of all expenditures of proceeds through the final payment date for the debt.