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| <b>DEBT MANAGEMENT</b> |
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| Dept/Div:       | Finance                | Approved By:   | Resolution No. 2026-21 |
| Effective Date: | August 13, 2026        | Applicability: | District Wide          |
| Supersedes:     | Resolution No. 2019-23 | See Also:      | N/A                    |

## 1.0 INTRODUCTION

### 1.1 Purpose and Overview

The Yorba Linda Water District Debt Management Policy as set forth herein provides a set of comprehensive guidelines for the issuance and management of the District's debt portfolio. Its purpose is to define the parameters for issuing debt; establish guidelines for the management of outstanding debt and the use of debt proceeds; provide direction regarding the types of debt instruments that may be utilized; and provide guidance as to the relationship between long-term capital financial planning and debt issuance. Adherence to the policy is essential to ensure the District maintains a diversified debt portfolio that supports the District's financing needs and minimizes the District's cost of funds. It is intended to promote sound fiscal management, preserve financial flexibility, and maintain optimal credit ratings. The Policy, as described herein, is in accordance with current laws and regulations and incorporates recognized industry best practices for public-sector debt management.

### 1.2 Roles and Responsibilities

**Finance Director** - The primary responsibility for debt management rests with the Finance Director. The Finance Director shall:

- Provide for the issuance of District debt at the lowest practical cost and risk;
- Determine the debt capacity of the District;
- Provide for the issuance of District debt at appropriate intervals and in reasonable amounts as required to fund approved and budgeted capital expenditures;
- Recommend to the District's Board of Directors (the "Board") the method and manner of sale of District debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate to reduce costs or to achieve other policy objectives;
- Comply with all Internal Revenue Service (IRS), Municipal Securities Rulemaking Board (MSRB), Securities and Exchange Commission (SEC), and California Debt Investment Advisory Commission (CDIAC) rules and regulations governing the issuance of debt;
- maintain a current database with all outstanding debt;
- Provide for the timely payment of principal and interest on all debt;
- Comply with all terms and conditions, including continuing disclosure, required by the legal documents governing outstanding debt;
- Submit to the Board all recommendations to issue debt in accordance with this Policy;

- Distribute to appropriate repositories information regarding the District's financial condition and affairs at such times and in the form required by law, regulation and general practice; and
- Provide for the frequent distribution of pertinent information to the rating agencies;
- Apply and promote prudent fiscal practices.

To ensure that internal controls are in place for proceeds of any debt issued in accordance with its Governing Documents (as defined herein) and this Policy, no disbursements shall be made without the approval of the Finance Director and General Manager. The draw request shall be provided to the District by the project engineer with the consent of the District's inspector. Approval shall only be provided when the Finance Director is in receipt of an appropriate certification from the construction project manager with supporting invoices from suppliers and/or contractors evidencing appropriate expenses in connection with the project.

In the case of an issue of bonds, the proceeds of which will be used by a governmental entity other than the District, the District may rely upon a certification by such other governmental entity that it has adopted the policies described in SB 1029.

The District should issue tax-exempt debt, which provides the lowest interest rates, unless it determines that taxable debt is legally necessary to meet the District's financial needs or objectives. The District shall also comply with Government Code Section 5852.1 by disclosing specified good faith estimates in a public meeting prior to the authorization of the issuance of bonds.

## 2.0 LEGAL GOVERNING PRINCIPLES

In the issuance and management of debt, the District shall comply with all legal constraints and conditions imposed by federal, state and local law. The following section highlights the key governing documents and certain debt limitations.

### 2.1 Governing Law

**County Water District Law** – The District was established in 1959 as a county water district under the County Water District Law, Division 12 of the Water Code of the State of California, as the successor to a private water company that was incorporated in or about 1909, for purposes of supplying water for domestic, irrigation, sanitation, industrial, commercial, recreation and fire suppression use. Section 31300 of the Water Code authorizes the District to “borrow money, incur indebtedness, and issue bonds or other evidences of the indebtedness, and may refund or retire any indebtedness or lien against the district or its property.”

**Federal Tax Law** – The District shall issue and manage debt in accordance with the limitations and constraints imposed by federal tax law, to maximize its ability to sell tax-exempt debt. Such constraints include, but are not limited to, private activity tests, review of eligible projects, spend-down tests, and arbitrage rebate limitations.

**Securities Law** – The District shall comply with the requirements of federal and state securities laws in offering District debt and the District shall comply with securities law requirements in providing ongoing disclosure to the securities markets.

## 2.2 Governing Legal Documents

**Governing Documents** – The District's debt issuances are further governed in part by the Governing documents of outstanding debt, adopted for each respective debt issuance and which constitute the "Governing Documents". The Governing Documents establish the basic security structure of debt issued by the District that is secured by Net Water Revenues or Net Sewer Revenues, as applicable. Key terms and conditions include, but are not limited to, the definition of pledged revenues, the rate covenant, and the additional bonds test. The District shall comply with all limitations imposed under the Governing Documents, so long as such Governing Documents are in full force and effect.

## 2.3 Permitted Debt by Type

The District may legally issue both short-term and long-term debt, using the debt instruments described below. The Finance Director, in consultation with the District's General Counsel, Bond Counsel, and Municipal Advisor shall determine the most appropriate instrument for funding purposes.

**General Obligation Bonds** – The District is empowered, under California law, to levy rates or taxes on all taxable property within its boundaries for the purpose of paying its voter-approved general obligation bonds subject to certain limitations.

**Certificates of Participation** – Certificates of Participation (COP) provide debt financing through a lease, installment sale agreement or contract of indebtedness and do not require voter approval. Board action is sufficient to legally authorize a COP issue. The District shall pledge net revenues to the repayment of its COPs, under the terms and conditions specified in the Governing Documents.

**JPA Revenue Bonds** – As an alternative to COPs, the District may obtain financing through the issuance of debt by a joint exercise of powers agency with such debt payable from amounts paid by the District under a lease, installment sale agreement, or contract of indebtedness.

**Commercial Paper** – The District may issue short-term revenue certificates, including commercial paper and extendable commercial paper. Board action is sufficient to legally authorize a commercial paper issue. The District's commercial paper is secured by Net Water Revenues or Net Sewer Revenues, as applicable. Voter approval is not required to issue commercial paper.

**Lines of Credit** – The District may enter into financing arrangements providing for a source of funds that can be readily accessed by the District for capital or operational needs. Board action is sufficient to legally authorize the establishment of a line of credit. Voter approval is not required to establish or access a line of credit.

**Variable Rate Debt** – The District is authorized to issue variable rate debt including, but not limited to, public market indexed notes, indexed notes or loans placed directly with financial institutions and other alternative variable rate and market access products as well as traditional variable rate demand obligations backed by bank liquidity facilities. Prior to the issuance of variable rate debt, the savings and other possible advantages compared to a fixed rate borrowing will be evaluated and a comparative analysis presented to the Board of Directors as part of the approval process.

**Refunding Revenue Bonds** – The District is authorized to issue refunding revenue bonds to refund outstanding District indebtedness pursuant to the State of California local agency refunding revenue bond law (Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California).

**Loans** – The District is authorized to enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source, or sources of repayment. Such loans include but are not limited to loans issued with the State Water Resources Control Board, U.S. Government, or directly with financial institutions.

**Assessment Bonds** – The District is authorized to issue assessment bonds pursuant to Section 31500 et seq. of the Water Code and the Improvement Act of 1911 and Improvement Bond Act of 1915, subject to requirements imposed by Proposition 218. Such bonds are typically repaid from assessments collected within an assessment district formed pursuant to the Municipal Improvement Act of 1913. Assessments are levies of charges on real property to pay for projects or services that specifically benefit that parcel of property.

**Special Tax Bonds** – Issued by community facilities districts ("CFDs") formed by the District pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, will be used to finance capital costs and projects identified within the proceedings under which the applicable CFD was formed.

**Other Obligations** – There may be special circumstances when other forms of financing are appropriately utilized by the District. The District will evaluate such proposed transactions on a case-by-case basis. Such other forms include, but are not limited to, grant anticipation notes and judgment or settlement obligation bonds.

## 2.4 Limitations on Debt Issuance

**Short-Term Debt** – The District's short-term debt shall not exceed 30 percent of its total debt at the time of issuance, unless risks related to interest rates can be mitigated. The calculation of short-term debt shall include any variable rate obligations, the authorized amount of commercial paper, and any notes/bonds with a maturity equal to or less than five years.

**Variable Rate Debt** – The Finance Director will consult with the District's Municipal Advisor to determine appropriate parameters for the issuance of variable rate debt and may rely on rating agency standards and other industry standards for establishing prudent financial goals and establishing the amount of variable rate debt to be issued.

**Subordinate Lien Long-Term Debt** - The District's subordinate lien debt, for which net revenues are pledged, shall be limited to that amount for which current and projected revenues generate overall debt service coverage of at least 100 percent.

**Senior Lien Long-Term Debt** – The District's senior lien long-term debt, for which net revenues are pledged, shall be limited to that amount for which current and projected revenues generate a senior lien debt service coverage of at least 125 percent. The calculation of debt service shall not include General Obligation Bonds, Assessment Bonds, or Special Tax Bonds to which revenue sources other than pledged revenues, as defined in the Governing Documents, are pledged. It should be noted that the District will target to issue debt to attempt to meet the senior lien debt service coverage target

of 225 percent in keeping with its prudent financial management practices and to maintain credit ratings aligned with rating agency methodologies.

## **2.5 Purpose for Borrowing**

The District shall issue debt solely for the purpose of financing the cost of design, engineering acquisition, and/or construction of water and sewer system improvements in furtherance of the District's Capital Improvement Program (CIP). Projects will only be financed if the District has the ability to repay the debt and fund appropriate operations and maintenance costs for the asset on an ongoing basis. Additionally, the District may, subject to Federal tax code limitations, include operational expenses in any debt issuance. Long-term debt financings shall not be used for current operating expenses and routine capital maintenance expenses.

## **2.6 Ethical Standards Governing Conduct**

Members of the District, the Board and its consultants, service providers, and underwriters shall adhere to standards of conduct as stipulated by the California Political Reform Act, as applicable. All debt financing participants shall maintain the highest standards of professional conduct at all times, in accordance with:

- MSRB Rules, including Rule G-37 and G-42 shall be followed at all times;
- Debt financing participants will assist the District staff in achieving its goals and objectives as defined in this Debt Management Policy; and
- All debt financing participants shall make cooperation with the District staff their highest priority.

## **2.7 Use of Derivatives**

The use of derivative products can, among other things, increase District financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. Careful monitoring of such products is required to preserve District credit strength and budget flexibility. Swaps will not be used to speculate on perceived movements in interest rates. Before the District enters any derivative product associated with debt, the Board shall adopt an interest rate swap policy.

# **3.0 INTEGRATION OF CAPITAL PLANNING AND DEBT ACTIVITIES**

## **3.1 Evaluating Capital Improvement Program Spending**

The District shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition. To that end, the Finance Director shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Five years of historic and projected cash flows;
- Five years of historic and projected capital expenditures;
- Five years of historic and projected operating costs;
- Five years of historic and projected fund balances for any funds established by the District's then-adopted Reserve Fund;
- Five years of historic and projected debt service coverage;
- The most efficient mix of funding sources (long-term debt; short-term debt, and cash);

- Projected revenue requirements; and
- Projected rates and charges.

#### 4.0 PROCUREMENT AND EVALUATION OF PROFESSIONAL SERVICES

**4.1 Appointment of Service Providers** – The Finance Director may solicit from time to time bids, quotes or proposals, including sole source proposals for the following services on an as needed basis:

- Municipal Advisor – Service provider that ensures the District complies with all financial management procedures and policies and ensures successful closing for debt transactions.
- Bond Counsel – Service provider that drafts appropriate documentation to ensure successful and timely closing and creates valid and legally binding security for bond issues and provides appropriate advice and takes appropriate actions to ensure legal validity of bond issues under state and federal laws as applicable.

#### 5.0 TRANSACTION-SPECIFIC POLICIES

**5.1 Method of Sale** – The Finance Director shall determine the most appropriate form of sale of its debt. In making a recommendation to the Board, the Finance Director, in consultation with the District's Municipal Advisor and Bond Counsel, may take into account, among other things, the type and tenor of the proposed debt; the District's credit ratings; the amount of funding necessary; the timing of the needed funds; local and national economic conditions; and general bond market conditions.

**5.2 Competitive Bid Method** - When necessary to minimize the costs and risks of any District borrowing, the Finance Director may submit to the Board a request to sell bonds on a competitive basis. Such bids may take the form of hand- delivered or electronically transmitted offers to purchase the bonds. Any competitive sale of District debt will require approval of the Board. District debt issued on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the District provided the bid conforms to the official notice of sale.

**5.3 Negotiated Bid Method** – A negotiated bond issue will provide for the sale of debt by negotiating the terms and conditions of the sale, including price, interest rates, credit facilities, underwriter or remarketing fees, and commissions. Examples of such sales include:

- Variable rate demand obligations;
- An issue of debt so large that the number of potential bidders would be too limited to provide the District with truly competitive bids;
- An issue requiring the ability to react quickly to sudden changes in interest rates (e.g., refunding bonds);
- An issue requiring intensive marketing efforts to establish investor acceptance;
- An issue of debt with specialized distribution requirements; and
- An issue of debt sold during a period of extreme market disruption or volatility.

If debt is sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees, and underwriting spreads and timing of sale. The District, with the assistance of its Municipal Advisor, shall evaluate the terms offered by the underwriting team. Guidelines with

respect to price, interest rates, fees, and underwriting spreads shall be based on prevailing terms and conditions in the marketplace for comparable issuers, credit ratings, tenor and par amount.

If more than one underwriter is included in the negotiated sale of debt, the District shall establish appropriate levels of liability, participation and priority of orders. Such levels shall be based upon District policy with regard to the underwriting responsibility among the team members, the desired allocation of total fees, and the desired distribution of bonds. Guidelines for establishing liability, participation, and priority of orders shall be based on prevailing terms and conditions in the marketplace for comparable issuers.

The District shall, with the assistance of its Municipal Advisor, oversee the bond allocation process. The bond allocation process shall be managed by the lead underwriter, with the following requirements:

- The bonds are allocated fairly among members of the underwriting team, consistent with the previously negotiated terms and conditions;
- The allocation process complies with all MSRB regulations governing order priorities and allocations;
- The lead underwriter shall submit to the Finance Director a complete and timely account of all orders, allocations, and underwriting activities with the investor names identified as appropriate.

The Finance Director shall require a post-sale analysis and reporting for each negotiated bond sale. The Municipal Advisor or the lead underwriter may perform such analysis. A post-sale analysis will include, but not be limited to:

- Summary of the pricing, including copies of the actual pricing wires;
- Results of comparable bond sales in the market at the time of the District's pricing;
- Detailed information on orders and allocation of bonds, by underwriting firm;
- Detailed information on final designations earned by each underwriter; and
- Summary of total compensation received by each underwriter.

## 6.0 STRUCTURAL ELEMENTS

**6.1 Pledge of Revenues** – The District's pledge of revenues shall be determined for each debt issue depending upon the debt instrument:

- *General Obligation Bonds* of the District shall be repaid from voter- approved property taxes on property within the jurisdiction of the District.
- *Certificates of Participation* of the District shall be repaid from net revenues, as defined in the Governing Documents.
- *Revenue Bonds* of the District shall be repaid from net revenues, as defined in the Governing Documents.
- *Loans* of the District may be repaid from net revenues of the water and/or sewer systems, or other financially prudent sources of repayment, as may be available.
- *Assessment Bonds* of the District shall be repaid from levies or charges collected within an assessment district formed by the District.
- *Special Tax Bonds* of the District shall be payable from net special taxes collected in applicable taxing jurisdiction as a result of the levy of special taxes

- 6.2 Maturity** – The District may issue tax-exempt debt with an average life equal to, but no greater than 125% of, the average life of the assets being financed. The final maturity should be no longer than 40 years absent compelling circumstances or facts. Factors to be considered when determining the final maturity of debt include: the average useful life of the assets being financed, relative level of interest rates, intergenerational equity and the year-to-year differential in interest rates.
- 6.3 Maturity Structure** – The District's long-term debt may include serial and term bonds. Other maturity structures may also be considered if they are consistent with prudent financial management practices.
- 6.4 Coupon Structure** – Debt may include par, discount and premium coupons. Discount and premium bonds must be demonstrated to be advantageous relative to par bond structures, taking into consideration market conditions and opportunities. For variable rate debt, the variable rate may be based on one of a number of commonly used interest rate indices and the index will be determined at the time of pricing.
- 6.5 Debt Service Structure** – Debt service may be structured primarily on an approximate level (combined annual principal and interest) basis. Certain individual bond issues, such as refunding bonds, may have debt service that is not level. However, on an aggregate basis, debt service should be structured primarily on a level basis.
- 6.6 Redemption Features** – In order to preserve flexibility and refinancing opportunities, District debt will generally be issued with call provisions. The District may consider calls that are shorter than traditional and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the District will evaluate the efficiency of call provision alternatives.
- 6.7 Credit Enhancement** – The District shall competitively procure credit enhancement for an original sale of bonds if the Finance Director, in consultation with the Municipal Advisor and the senior underwriter, determines that it is cost effective to do so. The Finance Director may, in consultation with the Municipal Advisor and the senior underwriter, determine that due to certain circumstances a sole source procurement process may be more advantageous than a competitive process.
- 6.8 Senior/Subordinate Lien** – The District may utilize both a senior and a subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on rates, and marketing considerations.
- 6.9 Debt Service Reserve Funds** – The District shall provide for debt service reserve funds to secure District debt when necessary.

## **7.0 COMMUNICATION AND DISCLOSURE**

### **7.1 Rating Agencies**

The District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The Finance Director shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies may include one or more of the following:



- Full disclosure on an annual basis of the financial condition of the District;
- A formal presentation, at least annually or as becomes necessary to the rating agencies, covering economic, financial, operational, and other issues that impact the District's credit;
- Timely disclosure of major financial events that impact the District's credit;
- Timely dissemination of the Annual Comprehensive Financial Report, following its acceptance by the District's Board;
- Full and timely distribution of any documents pertaining to the sale of bonds; and
- Periodic tours of the water system operations, as appropriate.

## **7.2 Bond Insurers**

The Finance Director shall manage relationships with the bond insurers, to the extent any debt is so insured, by providing appropriate information. Communication with other bond insurers shall be undertaken when the Finance Director, with the assistance of the District's Municipal Advisor, determines that credit enhancement is cost effective for a proposed bond issue.

## **7.3 Disclosure Reports**

The District shall comply with its disclosure undertakings and make disclosure reports readily available to market participants through the Electronic Municipal Market Access website.

## **8.0 REFUNDING POLICIES**

The District shall strive to refinance debt to maximize savings and minimize the cost of funds as market opportunities arise. A net present value analysis will be prepared that identifies the economic effects of any refunding to be proposed to the Board. The District shall target as minimum acceptable targets, 3% net present value savings for current and 5% for advance refunding transactions. Tax-exempt advance refundings (i.e., refunding bonds issued prior to 90 days before the call date) are prohibited under current tax law and the District will not pursue tax-exempt advance refundings unless there is a change to current law. Nothing in this paragraph precludes the District from pursuing advance refundings through the issuance of taxable debt. Upon the advice of the Finance Director, with the assistance of the Municipal Advisor and Bond Counsel, the District will consider undertaking refunding for other than economic purposes, such as to restructure debt, change the type of debt instruments being used, or to retire a bond issue in order to remove undesirable covenants.

**8.1 Savings Thresholds** – Minimum savings thresholds have been established to help guide the economic analysis of refunding bonds. The minimum savings guidelines are applicable on a maturity-by-maturity basis and are expressed as a percentage of refunded bond par calculated by dividing the expected net present value savings generated by the proposed refunding by the par amount of refunded bonds. At the recommendation of the Finance Director, with the assistance of the Municipal Advisor, the District may complete a refunding for net present value savings equal to the target specified above on an aggregate bond issue basis rather than a maturity-by-maturity basis. Generally, the District shall only refund bonds to generate debt service savings if the specified minimum savings set forth in the previous paragraph can be achieved, unless specific circumstances require a refunding for other than economic purposes, as stated above.

- 8.2 Coupon on Refunded Bond** – The Finance Director may take into consideration whether the coupon on the refunded bond is significantly higher or lower than the most common outstanding bond coupons of approximately five percent.
- 8.3 General Interest Rate Environment** – The Finance Director may take into consideration whether the available refunding bond interest rates are generally high or generally low relative to long-term averages of historical rates.
- 8.4 General Interest Rate Outlook** – The Finance Director may take into consideration the general outlook for future interest rates, as derived from economic forecasts, market forecasts, implied forward rates, or other sources.
- 8.5 Debt Management Considerations** – The Finance Director may take into consideration debt management issues such as cost and staff efficiencies associated with combining multiple refunding bond issues or combining refunding and new money bond issues.
- 8.6 Call Date** – The Finance Director may take into consideration the amount of time between the pricing/closing date of the refunding debt and the call date of the debt to be refunded.
- 8.7 Final Maturity Date** – The Finance Director may take into consideration the amount of time remaining until the final maturity of the debt to be refunded

## **9.0 REINVESTMENT OF PROCEEDS**

- 9.1 General** – The District shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds, as well as restrictions on the time period during which some bond proceeds may be invested. To the extent that a bond issue is credit enhanced, the District shall adhere to the investment guidelines of the credit enhancement provider.
- 9.2 Requirements of Governing Documents** – The District will comply with all terms and conditions of the appropriate legal documents related to the debt. Such limitations shall include, but not be limited to, Investments in the Governing Documents.

## **10.0 CREATION AND MAINTENANCE OF FUNDS**

The District maintains a number of different funds integral to the long-range financial planning process. Each of these funds is held for a specific purpose and can generally be categorized as either an operating, capital or debt reserve fund. The District will comply with all requirements and limitations created under its Reserve Policy.

## **11.0 COMPLIANCE**

### **11.1 Arbitrage Liability Management**

The District shall minimize the cost of arbitrage rebate and yield restrictions while strictly complying with tax law. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the District shall solicit the advice of bond

counsel and other qualified experts about arbitrage rebate calculations. The District shall contract with a qualified third-party for preparation of the arbitrage rebate calculation.

The District shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue. Investment may be pooled for financial accounting purposes and for investment purposes. When investment of bond proceeds is commingled with other investments, the District shall adhere to IRS rules on accounting allocations.

## 11.2 Post-Issuance Tax Compliance

The District has adopted Written Procedures to Ensure Compliance with Requirements for Tax-Exempt Bonds. The District shall comply with such procedures to maintain the tax-exempt status of District debt obligations or to maintain eligibility for direct pay subsidy payments, as applicable

**State Reporting Requirements** – Pursuant to Government Code Section 8855(k), the District will submit annual debt transparency reports for any debt issued on or after January 1, 2017, every year until the later date on which the debt is no longer outstanding or proceeds have been fully spent by no later than January 31 each year.

Pursuant to the Government Code Section 6599.1(b) of the Marks-Roos Local Bond Pooling Act of 1985, as amended (Section 6584 et seq.) the District will submit the Marks-Roos yearly fiscal status reports, if required, annually to California Debt and Investment Advisory Commission (CDIAC) until the final maturity of the bonds by no later than October 30 each year.

## 11.3 Continuing Disclosure

The District shall comply with the requirements of each Continuing Disclosure Certificate entered into at the time of the sale of bonds. Annual information provided by the District shall mirror the information in any District offering statement at the time of a primary offering. Annual financial information will be sent by the District or its designated consultant, within the time required under the Continuing Disclosure Certificate to the EMMA System. This shall include:

- Annual Comprehensive Financial Report of the District; and
- Updated tables from the Official Statement, as detailed in the Continuing Disclosure Certificate.

In addition to annual disclosure, the District shall provide ongoing information about certain enumerated events, as defined by regulation, to the EMMA System.

The District may engage a firm to assist it in ensuring timely completion and filing of annual reports and in identifying, and making timely filings with respect to, the occurrence of reportable enumerated events.

In addition, the District's Continuing Disclosure Agreements entered into after February 27, 2019, call for the District to notify investors of the incurrence of any "financial obligation", if material, and if such financial obligation does not have its own disclosure requirements to the market, and the District will be obligated to disclose defaults on,

acceleration of and certain other information with respect to any "financial obligation" regardless of when the financial obligation was incurred.

Rule 15c2-12 provides a general definition of a "financial obligation." While the impetus for the obligation to disclose information about financial obligations was a perception by the SEC and others that municipal issuers were increasingly entering into bank or other private placement debt, Rule 15c2-12 defines "financial obligation" more broadly to include "a debt obligation, derivative instrument or a guarantee of either a debt obligation or a derivative instrument."

To date, the SEC has provided limited guidance on the specific application of the definition of "financial obligation." The SEC has suggested that a key concept is that a "financial obligation" involves the borrowing of money. In public comments, representatives of the SEC have declined to provide a definition of a "guarantee," but they did indicate that the SEC will not look to state law definitions of a "guarantee" or "debt."

As described in detail below, the District will need to monitor agreements or other obligations entered into by the District, and any modifications to such agreements or other obligations, to determine whether they constitute "financial obligations" under Rule 15c2-12 and, if material, need to be disclosed to investors.

In addition, if the District entity receives a notice of default or an event of default or of an acceleration, termination event, modifications of or other similar event on any agreement or other obligation, the District will need to determine whether such obligation constitutes a "financial obligation" (regardless of when originally incurred) and whether such default or other event reflects financial difficulty (i.e., reduction in overall liquidity, creditworthiness or debt owner's rights).

Types of agreement or other obligations which are likely to be "financial obligations" under Rule 15c2-12 include:

1. Bank loans or other obligations which are privately placed;
2. Letters of credit, including letters of credit which are provided to third parties to secure the District's obligation to pay or perform;
3. Capital leases for property, facilities or equipment; and
4. Agreements which guarantee the payment or performance obligations of a third party (regardless of whether the agreements constitute guarantees under California law).

Types of agreements which could be a "financial obligation" under Rule 15c2-12 include:

1. Payment agreements which obligate the District to pay a share of another public agency's debt service (for example, an agreement with a joint powers agency whereby the District agrees to pay a share of the joint powers agency's bonds, notes or other obligations);
2. Service contracts with a public agency or a private party pursuant to which the District is obligated to pay a share of such public agency's or private party's debt service obligation (for example, certain types of public-private partnership arrangements);

3. Agreements pursuant to which the District is obligated to pay amounts expressly tied to another party's debt service obligations, regardless of whether service is provided or not;
4. Agreements which include a rate component that expressly passes through debt service or capital obligation of the other party; and
5. Agreements the payments under which are not characterized as an operation and maintenance expense for accounting purposes if such agreements could be characterized as the borrowing of money.

The District General Counsel and/or Finance Director will notify the District's bond counsel and/or disclosure counsel of the receipt by the District of any default, event of acceleration, termination event, modification of terms (only if material or reflecting financial difficulties), or other similar events (collectively, Potentially Reportable Events) under any agreement or obligation to which the District is a party and which may be a "financial obligation" as discussed above. Such notice should be provided by the General Counsel or the Finance Director as soon as the General Counsel or Finance Director receives notice from District staff, consultants or external parties of such event or receives direct written notice of such event so that the City can determine, with the assistance of bond counsel and/or disclosure counsel, whether notice of such Potentially Reportable Event is required to be filed on EMMA pursuant to Rule 15c2-12. If filing on EMMA is required, the filing is due within 10 business days of such Potentially Reportable Event to comply with the applicable Continuing Disclosure Agreement.

The Finance Director will catalog the execution by the District of any agreement or other obligation which might constitute a "financial obligation" for purposes of Rule 15c2-12 and which is entered into after February 27, 2019. Amendments to existing agreements or financial obligations which relate to covenants, events of default, remedies, priority rights, or other similar terms should be reported to the District's bond counsel and/or disclosure counsel as soon as notice of amendment requests is received by District staff, consultants, or external parties of such event. Such notice is necessary so that the District can determine, with the assistance of bond counsel and/or disclosure counsel, whether such agreement or other obligation constitutes a material "financial obligation" for purposes of Rule 15c2-12. If such agreement or other obligation is determined to be a material "financial obligation" or a material amendment to a "financial obligation" described above, notice thereof would be required to be filed on EMMA within 10 business days of execution or incurrence.

#### **11.4 Legal Covenants**

The District shall comply with all covenants and conditions contained in governing law and any legal documents entered at the time of a bond offering.

### **12.0 DEBT DATABASE MANAGEMENT**

The District shall maintain complete information on its outstanding debt portfolio, in a spreadsheet or database program format. The information in the database shall include, but not be limited to, the following:

- Issue Name
- Initial Issue Par Amount
- Dated Date of the Issue
- Principal Maturity Amounts

- Coupon Rate by Maturity
- Amount Outstanding
- Call Provisions
- Purpose of the Issue
- Credit Enhancer, if any
- Competitive or Negotiated Sale
- Names of Underwriting Team Members

The District shall use the debt database for the following purposes:

- Generate Reports
- Gross Annual Debt Service
- Net Annual Debt Service
- Refunding Analyses
- Output to Fund Accounting System