

**RESOLUTION NO. 1150-23**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE MOJAVE WATER AGENCY  
ESTABLISHING A DEBT MANAGEMENT POLICY**

**WHEREAS**, the Agency's overriding goal in issuing debt is to respond to and to provide for the infrastructure and capital project needs of its customers while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality; and

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**WHEREAS**, the Agency will endeavor to pay for all infrastructure and other projects from a combination of current revenues, available reserves, and prudently issued debt; and

**WHEREAS**, the Agency believes that debt can provide an equitable means of financing projects for the Agency's customers and provide access to new capital needed for infrastructure and project needs;

**NOW THEREFORE, BE IT RESOLVED** that the Board of Directors of the Mojave Water Agency hereby adopts the following Debt Management Policy:

# **MOJAVE WATER AGENCY DEBT MANAGEMENT POLICY**

## **INTRODUCTION**

The Agency's overriding goal in issuing debt is to respond to and to provide for the infrastructure and capital project needs of its customers while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The Agency issues debt instruments, administers Agency-held debt proceeds and makes debt service payments, acting with prudence and diligence, and attention to prevailing economic conditions. This policy documents the Agency's goals for the use of debt instruments and provides guidelines for the use of debt for financing the Agency infrastructure and project needs.

The Agency will endeavor to pay for all infrastructure and other projects from a combination of current revenues, available reserves, and prudently issued debt. The Agency believes that debt can provide an equitable means of financing projects for the Agency's customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to finance projects (i) if it meets the Agency's goal of equitable treatment of all customers, both current and future, (ii) if it is the most cost-effective means available to the Agency, and (iii) if it is fiscally prudent, responsible, and diligent under the prevailing economic conditions.

The Agency's debt management policy is designed to:

- Establish parameters for issuing debt;
- Provide guidance to decisions makers:
  - with respect to all options available to finance infrastructure and other capital projects;
  - so that the most prudent, equitable and cost effective method of financing can be chosen;
- Document the objectives to be achieved by staff both prior to issuance and subsequent to issuance;
- Promote objectivity in the decision-making process; and
- Facilitate the financing process by establishing important policy decisions in advance.

The Agency will adhere to the following legal requirements for the issuance of public debt:

- The state law which authorizes the issuance of the debt;
- The Mojave Water Agency Act;
- The federal and state laws which govern the eligibility of the debt for tax-exempt status;

- The federal and state laws which govern the issuance of taxable debt;
- The federal and state laws which govern disclosure, sale and trading of the debt.

## **I. GENERAL MANAGEMENT POLICIES**

The Agency will provide for a periodic review of its financial performance, and review its performance relative to the financial policies outlined herein. These policies will be taken into account during the capital planning, budgeting and rate setting process.

In recognition of periodic changes in the cost of providing service to system users, service costs and fees will be reviewed annually and adjusted commensurately.

The Agency will present any proposed adjustments to existing rates, fees and charges at public meetings, and will consider recommendations and input from the public as it relates to such proposed changes.

All Agency funds will be invested according to the Investment Policy of the Agency.

Necessary appropriations for annual debt service requirements will be routinely included in the Agency's annual budget.

The Agency 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 rates.

## **II. FINANCIAL MANAGEMENT POLICIES**

The Agency develops a 6-year Capital Improvement Plan in conjunction with a long-term financial planning module to determine long term infrastructure and project needs for the next 6 to 20 years. The Agency evaluates each project in relation to established levels of reserves, current rate structure, expected asset life/replacement timeline, and available revenue sources to ensure that adequate financial resources are available to support the Agency's financial obligations.

The Agency's Debt Management Policies, Reserve Policies, and the Investment Policy are integrated into the decision-making framework utilized in the budgeting and capital improvement planning process. As such the following policies outline the Agency's approach to debt management.

The Agency will evaluate financing for each capital project on a case-by-case basis. The Agency will assess whether to pay for such projects from current revenues and available reserves prior to or in combination with the use of debt.

The Agency will issue debt only in the case where there is an identified source of repayment. Bonds will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.

Debt issuance for a capital project will not be considered unless such issuance has been incorporated into the Agency's financial plan.

User Fees, voter approved taxes and water rates will be set at adequate levels, which are fair and nondiscriminatory, to generate sufficient revenues to pay all Operating and Maintenance costs, to maintain sufficient operating reserves, and to pay debt service costs, if necessary.

To ensure that proceeds of any debt issued in accordance with its governing documents and this Policy no disbursements shall be made without the approval of the Chief Financial Officer ("CFO") and General Manager. The draw request shall be provided to the Agency by the project engineer with the consent of the Agency's inspector. Approval shall only be provided when the Chief Financial Officer 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 Agency, the Agency may rely upon a certification by such other governmental entity that it has adopted the policies described in SB 1029.

### **III. DEBT AND CAPITAL MANAGEMENT POLICIES**

The following policies formally establish parameters for evaluating, issuing, and managing the Agency's debt. The policies outlined below shall serve as a set of guidelines, not rules, to promote sound financial management.

In issuing debt, the Agency objectives will be to:

- Achieve the lowest cost of capital
- Ensure ratepayer equity
- Maintain high credit ratings and access to credit enhancement
- Preserve financial flexibility

#### **Standards for Use of Debt Financing**

When appropriate, the Agency will use long-term debt financing to achieve an equitable allocation of capital costs/charges between current and future system users, to provide more manageable rates in the near and medium term, and to minimize rate volatility.

For growth-related projects, debt financing will be utilized, as needed, to better match the cost of anticipated facility needs with timing of expected new connections to the system and spread the costs evenly over time.

The Agency shall not construct or acquire a facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its expected life.

Capital projects financed through debt issuance will not be financed for a term longer than the expected useful life of the project.

### **Permitted Debt by Type**

*General Obligation Bonds – The Agency is empowered, under California law, to levy rates, fees, and assessments on all taxable property within its boundaries for the purpose of paying its voter-approved general obligation bonds.*

*Certificates of Participation – Certificates of Participation (“COP”) provide debt financing through a lease, installment sale agreement or contract of indebtedness which are payable from net revenues, under the terms and conditions specified in the related governing documents.*

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

*Lines of Credit - The Agency may enter into financing arrangements with banks or other financial institutions providing for a source of funds that can be readily accessed by the Agency for capital or operational needs.*

*Commercial Paper – The Agency may establish and utilize a commercial paper program to provide financing for projects. The Agency's commercial paper shall be payable from Agency net revenues. The CFO shall provide a written report to the Board twelve months following the initial issuance of commercial paper notes and annually thereafter so long as there is any commercial paper outstanding. The report shall summarize the status of projects financed with commercial paper; and identifying any long-term Debt issued to refund commercial paper notes.*

*Other Obligations* - There may be special circumstances when other forms of financing are appropriately utilized by the Agency. The Agency 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.

## **Financing Criteria**

Each debt issuance should be evaluated on an individual basis within the framework of the Agency's long-term financial plan, as well as within the context of the Agency's overall financing objectives and current market conditions.

The Agency will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

*Credit Enhancement* – The Agency will consider the use of credit enhancement on a case-by-case basis. Only when clearly demonstrable savings can be realized shall credit enhancement be utilized.

*Cash-Funded Reserve vs. Surety* – The Agency may purchase a surety policy or replace an existing cash-funded Debt Service Reserve Fund when deemed prudent and advantageous. The Agency may utilize guaranteed investment agreements for a cash reserve fund when permitted by the applicable bond documents.

*Call Provisions* – In general, the Agency's securities should include optional call provisions. The Agency will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option.

*Additional Bonds Test/Rate Covenants* - The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and these policies.

*Short-Term Debt* – The Agency may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future bonding capacity.

*Use of Variable Rate Debt* - The Agency will not issue variable interest rate debt unless: (i) the proposed debt, (a) can be converted to a fixed rate, or (b) is hedged (the Agency has an offsetting position, or investment to insulate itself from adverse interest rate changes either for an interim period, or to maturity) by use of a put-type mode, swap agreement or hedging mechanism (e.g., interest rate cap), or (ii) all outstanding (un-hedged) variable rate debt, including the proposed new variable debt, does not exceed 100% of the Agency's "hedge position" in aggregate. For this

purpose, the Agency's hedge position will be calculated as the Agency's unrestricted cash reserves multiplied by 150%.

*Investment of Bond Proceeds* - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction, unless further restricted or limited in the Agency's Investment Policy. The Agency will seek to prudently maximize investment earnings within the investment parameters set forth in the respective debt financing documentation. The reinvestment of bond proceeds will be incorporated into the evaluation of each financing decision; specifically addressing arbitrage/rebate position, and evaluating alternative debt structures and refunding savings on a "net" debt service basis, where appropriate.

### **Refinancing Outstanding Debt**

The Agency shall have the responsibility to evaluate potential refunding opportunities. The Agency will consider the following issues when analyzing potential refinancing opportunities:

*Debt Service Savings* – The Agency shall establish a target savings level equal to **3%** of par refunded on a net present value (NPV) basis for a current refunding and **5%** for advanced refunding transactions. This figure should serve only as a guideline, the Agency must evaluate each refunding opportunity on a case-by-case basis, and must take into consideration:

- the time to maturity,
- size of the issue,
- current interest rate environment,
- annual cash flow savings
- the value of the call option.

The decision to take all savings upfront or on a deferred basis must be explicitly approved by the Agency's Finance and Audit Committee and Board of Directors.

*Restructuring* - The Agency may seek to refinance a bond issue on a non-economic basis, in order to restructure debt, to mitigate irregular debt service payments, accommodate revenue shortfalls, release reserve funds, comply with and/or eliminate rate/bond covenants, or terminate a swap.

*Term/Final Maturity* – The Agency may consider the extension of the final maturity of the refunding bonds in order to achieve a necessary outcome, provided that such extension is legal. The term of the bonds should not extend beyond the reasonably expected useful life of the asset being financed. The Agency may also consider shortening the final maturity of the bonds. The remaining useful life of the assets and the concept of inter-generational equity should guide these decisions.

*Economic versus Legal Defeasance* - When evaluating an economic versus legal defeasance, the Agency shall take into consideration both the financial impact on a net present value basis as well as the rating/credit impact. The Agency shall take all necessary steps to optimize the yield on its refunding escrows investments and avoid negative arbitrage. A defeasance escrow is efficient if the yield on the defeasance escrow is as close as possible to the arbitrage yield on the refunding bonds. The CFO will select appropriate defeasance securities.

## **Method of Issuance**

The Agency will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

*Competitive Sale* – In a competitive sale, the Agency’s bonds shall be awarded to the bidder providing the lowest true interest cost (“TIC”), as long as the bid adheres to requirements set forth in the official notice of sale.

*Negotiated Sale* – The Agency recognizes that a negotiated sale of debt may, in certain circumstances, result in the lowest cost of funds to the Agency. In consideration of a negotiated sale, the Agency shall assess the following circumstances:

- Issuance of variable rate or taxable bonds;
- Complex structures or credit considerations (such as non-rated bonds), which require a strong pre-marketing effort. Significant par value, which may limit the number of potential bidders unique/proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process;
- Market volatility, such that the Agency would be better served by flexibility in the timing of its sale in a changing interest rate environment;
- When an underwriter has identified new financing opportunities or presented alternative structures that financially benefit the Agency;
- As a result of an underwriter’s familiarity with the project/financing, that enables the Agency to take advantage of efficiency and timing considerations.

*Private Placement* – From time to time the Agency may elect to issue debt on a private placement basis. Such method shall 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 a financing be completed.

*Government Sponsored Direct Loans* - From time to time, the Agency may enter into loan agreements with federal or state agencies. The Agency will evaluate such loans on a case-by-case basis. Prior to entering into such loan, the Agency may consider alternative forms of debt, interest rates, other fees, proposed terms and conditions, the history of completing such loans by the federal or state agency, the availability of likelihood of obtaining funding and the ability of the proposed government agency to close the transaction in a timely manner.

### **Market Communication, Debt Administration and Reporting Requirements**

*Rating Agencies* – The Chief Financial Officer shall be responsible for maintaining the Agency's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investment Service. The Agency may, from time to time, choose to deal with one, two, or all of these agencies as circumstances dictate.

In addition to general communication, the Chief Financial Officer shall: (1) provide the credit rating agencies appropriate information on a timely basis and may choose to confer with their credit analysts as necessary, and (2) prior to each competitive or negotiated sale, offer conference calls with agency analysts in connection with the planned sale. The CFO shall provide updates to the Board on feedback from rating agencies and / or investors as appropriate.

*Observance of Debt Covenants* – The Chief Financial Officer shall periodically, and at least annually, ensure the District is—and is expected to remain—in compliance with all legal covenants for each debt issue.

*Continuing Disclosure* – The Agency shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders as covenanted in each debt issue's Continuing Disclosure Agreement. The Agency shall also supply the market with timely updates to certain significant events, as outlined in each debt issue's Continuing Disclosure Agreement.

*Record-Keeping* – A copy of all debt-related records shall be retained at the Agency's offices. At minimum, these records shall include all official statements, bid documents, bond documents / transcripts, resolutions, trustee statements, leases, and title reports for each Agency financing (to the extent available). To the extent possible, the Agency shall retain an electronic copy of each document - preferably in pdf or CD-ROM format.

*Arbitrage Rebate* – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Chief Financial Officer shall ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

*State Reporting Requirement* - The Agency shall comply with all applicable CDIAC rules and regulations. Pursuant to Government Code section 8855(k), the Agency 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 the proceeds have been fully spent. The Agency 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 debt.

### **Amendment A**

New paragraph in the Mojave Water Agency Debt Management Policy to assist the Chief Financial Officer in complying with an amendment to SEC Rule 15c2-12 ("Rule 15c2-12") which became effective February 27, 2019 to report certain information with respect to "financial obligations":

Effective February 27, 2019, the General Manager, the Assistant General Manager or the Agency Secretary, as applicable, will provide written notice to the Chief Financial Officer of receipt by the Mojave Water Agency of a notice of any default, event of acceleration, termination event, modification of terms (only if material or may reflect financial difficulties), or other similar events (collectively, a "Potentially Reportable Event") received by the Agency under any agreement or obligation to which the Agency is a party and which may be a "financial obligation" as discussed below. Such written notice should be provided by the General Manager, Assistant General Manager or the Agency Secretary, as applicable, to the Chief Financial Officer as soon as the General Manager, Assistant General Manager or the Agency Secretary, as applicable, is placed on written notice by Agency staff, consultants, or external parties of such event or receives written notice of such event so that the Chief Financial Officer can determine, with the assistance of bond counsel, whether notice of such Potentially Reportable Event is required to be filed on EMMA pursuant to the disclosure requirements of SEC 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 continuing disclosure undertaking for the various debt obligations of the Agency.

General Counsel or General Manager, or designee, will report to the Chief Financial Officer the execution by the Agency 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 Agency agreements or obligations with "financial obligations" which relate to covenants,

events of default, remedies, priority rights, or other similar terms should be reported to the Chief Financial Officer as well as soon as General Counsel or General Manager, or designee, is placed on written notice by Agency staff, consultants, or external parties of such event or receives a written notice of such amendment requests. Notice to the Chief Financial Officer is necessary so that the Chief Financial Officer can determine, with the assistance of bond 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. The types of agreements or other obligations which could constitute "financial obligations" and which could need to be reported on EMMA are listed below.

Types of agreement or other obligations which are likely to be "financial obligations" under the Rule include:

1. Bank loans or other obligations which are privately placed;
2. State or federal loans;
3. Commercial paper or other short-term indebtedness for which no offering document has been filed on EMMA;
4. Letters of credit, surety policies or other credit enhancement with respect to the Agency's publicly offered debt;
5. Letters of credit, including letters of credit which are provided to third parties to secure the Agency's obligation to pay or perform (an example of this is a standby letter of credit delivered to secure the Agency's obligations for performance under a mitigation agreement);
6. Capital leases for property, facilities, fleet or equipment; and
7. 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 the Rule include:

1. Payment agreements which obligate the Agency to pay a share of another public entity's debt service (for example, an agreement with a joint powers district whereby the Agency agrees to pay a share of the joint powers district's bonds, notes or other obligations);
2. Service contracts with a public district or a private party pursuant to which the Agency is obligated to pay a share of such public district or private party's debt service obligation (for example, certain types of P3 arrangements);
3. Water purchase, water banking or other similar agreements pursuant to which the Agency is obligated to pay amounts expressly tied to the other party's debt service obligations, regardless of whether service is provided or not; and

- 4 Water purchase, water banking or similar agreements which include a rate component that expressly passes through debt service or capital obligation of the other party.

Types of agreements which may be a “financial obligation” subject to the Rule include:

- 1 Any agreement the payments under which are not characterized as an operation and maintenance expenses for accounting purposes if such agreement could be characterized as the borrowing of money.

**APPROVED AND ADOPTED** this 22nd day of June 2023 by the following vote:

AYES:  
NOES:  
ABSTAIN:  
ABSENT:

  
Mike Page  
President

ATTEST:

  
Rick Roelle  
Secretary