INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

RESOLUTION NO. ______

RESOLUTION OF THE BOARD OF DIRECTORS OF THE INDIAN WELLS VALLEY GROUNDWATER AUTHORITY APPROVING A DEBT MANAGEMENT POLICY

RESOLVED, by the Board of Directors (the "Board") of the Indian Wells Valley Groundwater Authority (the "Authority"), as follows:

WHEREAS, pursuant to the provisions of section 8855(i) of the California Government Code, prior to the issuance or incurrence of any debt, the Authority is required to adopt local debt policies concerning the use of debt and that any proposed debt issuance is consistent with those local debt policies; and

WHEREAS, a debt management policy has been developed for the Authority and the Board desires to adopt such policy in connection with any proposed debt of the Authority;

NOW, THEREFORE, it is hereby ORDERED and DETERMINED, as follows:

Section 1. The debt management policy, in the form attached hereto as Exhibit A (the "Debt Policy"), is hereby adopted by the Board for the Authority. The Debt Policy has been developed to provide guidance in the issuance and management of debt by the Authority or its related entities and is intended to comply with section 8855(i) of the California Government Code effective on January 1, 2017. The main objectives are to establish conditions for the use of debt, to ensure that debt capacity and affordability are adequately considered, to minimize the Authority's interest and issuance costs, to maintain the highest possible credit rating, to provide complete financial disclosure and reporting and to maintain financial flexibility for the Authority.

Section 2. The General Manager and other appropriate officials of the Authority are hereby authorized and directed to take any actions and execute and deliver any and all documents as are necessary to accomplish the provisions and directives of this Resolution.

Section 3. This Resolution shall be effective upon adoption by the Board.

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I, the undersigned Secretary of the Indian Wells Valley Groundwater Authority, hereby certify that the foregoing is a full, true and correct copy of a resolution adopted by the Board of Directors of the Authority at a meeting thereof on the 8th day of May, 2024, by the following vote of the members thereof:

AYES:

NOES:

ABSTAIN:

ABSENT:

____

Secretary

EXHIBIT A

DEBT MANAGEMENT POLICY

INDIAN WELLS VALLEY GROUNDWATER AUTHORITY

DEBT MANAGEMENT POLICY

This Debt Management Policy (the "Debt Policy") of the INDIAN WELLS VALLEY GROUNDWATER AUTHORITY (the "Authority") was approved by the Board of Directors of the Authority (the "Board") on May 8, 2024. The Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt of the Authority.

This Debt Policy will also apply to any debt issued by any public agency for which the Board acts as its legislative body.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the Authority or its related entities and is intended to comply with section 8855(i) of the California Government Code effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the Authority's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the Authority.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the Authority's effort to allocate limited resources to provide the highest quality of service to the public. The Authority understands that poor debt management can have ripple effects that hurt other areas of the Authority. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the Authority for its residents and businesses.

DEBT MANAGEMENT POLICY

1. POLICY STATEMENT

The Authority funds its capital projects and meets other financing needs through a combination of current operating revenues, available reserves, outside funding (e.g., grants), and prudently issued debt. This Debt Policy documents the goals and guidelines of the Authority for the issuance and use of debt instruments.

To achieve optimal credit ratings and endorse prudent financial management, the Authority is committed to long-term capital and financial planning, and continual review of its financing structure to optimize the overall cost of debt.

The issuance of debt by the Authority to finance major capital projects or to refinance existing obligations will only occur after the transaction is evaluated to be fiscally prudent and responsible under the prevailing economic conditions. Prior approval by the Board is required for the issuance of new debt or for the refinancing of existing debt.

2. PURPOSE OF POLICY

The purpose of this Debt Policy is to establish and maintain parameters for issuing debt, and promote objectivity in the decision-making process.

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

- State law, which authorizes the issuance of debt;
- Federal and state law, which govern the eligibility of the debt for tax-exempt status;
- Federal and state law, which govern the issuance of taxable debt;
- Federal and state law, which govern disclosure, sale, and trading of the debt, both before and subsequent to issuance; and
- Generally Accepted Accounting Principles (GAAP).

The Authority hereby recognizes that a fiscally prudent debt policy is required to:

- Maintain the Authority's sound financial position.
- Ensure the Authority has the flexibility to respond to changes in future service priorities, revenues, and operating expenses.
- Protect the Authority's creditworthiness.
- Ensure that all debt is structured to protect current and future taxpayers, ratepayers and constituents of the Authority.
- Ensure that the Authority's debt is consistent with the Authority's planning goals and objectives and Groundwater Sustainability Plan (GSP) or capital budget, as applicable.

3. PURPOSE AND USE OF DEBT

The Authority will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term capital improvements and, thus, ensure inter-generational equity of such major improvements among existing and future users of the system. Debt can be issued to fund the capital cost of planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment, and others costs as permitted by law.

3.1 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 Authority. Long-term debt financings are appropriate:

- When a project to be financed is necessary to provide Authority services.
- When the project to be financed will benefit constituents over several years.
- When total long-term debt financing does not constitute an unreasonable burden to the Authority and its taxpayers or ratepayers.
- When the debt is used to refinance outstanding debt to reduce the total cost of the debt or to realize other benefits of a debt restructuring, such as increased flexibility in the use of cash and reserves.

Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

The Authority may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the Authority Board of Directors;
- The Authority estimates that sufficient revenues will be available to service the debt through its maturity; and
- The Authority determines that the issuance of the debt will comply with the applicable state and federal law.

3.2 Short-term debt. Short-term debt may be issued to provide financing for the Authority'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, such as undertaking lease-purchase financing for equipment.

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

4. TYPES OF DEBT THAT MAY BE ISSUED

The following are types of debt the Authority could issue:

A) New Money Debt. New money debt is issued to finance the cost of capital improvement projects or other large or extraordinary costs as approved by the Board;

B) Refunding Debt. Refunding is debt issued to refinance (refund) previously issued outstanding debt. The Authority may issue refunding debt to refinance existing principal and/or interest on outstanding debt to achieve debt service savings, restructure scheduled debt service, or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding on the Authority;

C) Lease Financings. Lease revenue bonds, certificates of participation (known as "COPs") and lease-purchase transactions are examples of lease financings.

D) State Revolving Funds (SRF). The SRF loan program is a low or zero interest loan program made available for specific construction projects. SRF loans are generally structured such that the agency is required to contribute a percentage of the total project cost and receive loan proceeds from the State of California for the balance;

E) Water Infrastructure and Finance Innovation Act (WIFIA). The WIFIA loan program is a low interest loan program made available by the EPA for specific construction projects. WIFIA loans can fund up to 49% of project costs at a rate generally lower than public offerings and provide significant financing flexibility with regard to principal amortization; and

F) Lines of credit. The Authority has the authority to secure lines of credits when it is deemed prudent and advantageous to do so.

The Authority 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 Authority makes a specific determination as to why a variable rate issue would be beneficial to the Authority in a specific circumstance.

5. RELATIONSHIP OF DEBT TO GROUNDWATER SUSTAINABILITY PLAN AND BUDGET

The Authority is committed to long-term capital planning. The Authority intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Authority's capital budget and CIP. The Authority's Debt Management Policy, Reserve Policy, and Investment Policy will be considered in the decision-making framework utilized in the preparation of the Authority's CIP and long-term capital and financial planning, and its fiscal year budgeting process.

5.2 The Authority 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 Authority shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

5.3 The Authority shall integrate its debt issuances with the goals of its CIP by timing the issuance of debt to ensure that projects are available when needed in furtherance of the Authority's public purposes.

5.4 The Authority 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.

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

6. DEBT ISSUANCE

The Authority is committed to long-term financial planning, maintaining appropriate reserves and employing prudent practices in governance, management and budget administration, and systematic capital planning. The Authority intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Authority's annual operations budgets. Adoption of this Debt Policy will help ensure that debt is issued and managed in a manner that protects the public interest.

6.1 Credit Rating. The Authority intends to protect taxpayers, ratepayers and constituents by using conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical total borrowing costs. The Authority will seek to maintain optimum credit ratings for debt instruments. Authority staff, working with the Authority's Municipal Finance Advisor, shall be responsible for determining whether a rating will be required on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

6.2 Method of Sale. Debt is typically issued under either a competitive or negotiated sale, but may also be sold in a private placement. The Authority shall have the flexibility to determine which method of sale is appropriate for each debt issuance. Determination of the appropriate method of sale will rest with the General Manager and the Authority's Municipal Finance Advisor. There are a number of market factors that will affect the success of a debt offering and each should be carefully considered before selecting a method of sale. These factors include, but are not limited to: 1) market perception of the Authority's credit quality, 2) interest rate volatility, 3) size of the proposed sale, 4) complexity of the proposed issue, and 5) competition with other issuers for investor interest.

7. **DEBT ADMINISTRATION**

7.1 The Authority will comply with:

A) 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; and

B) Applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the Authority will periodically review the requirements of and will remain in compliance with the following:

1) Any continuing disclosure undertakings entered into by the Authority in accordance with SEC Rule 15c2-12;
2) Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance;
3) The Authority's investment policies as they relate to the use and investment of bond proceeds; and
4) California Government Code Section 8855(i) and the annual reporting requirements therein.

7.2 Proceeds of debt will be held either by:

A) A third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the Authority upon the submission of one or more written requisitions by the General Manager of the Authority (or their written designee); or

B) The Authority, to be held and accounted for in a separate fund or account to ensure debt proceeds are expended only for the purposes for which the debt was issued, the expenditure of which will be carefully documented by the Authority in records compliance with current accounting standards and subject to the Authority's annual audit.

7.3 Investment of Debt Proceeds. Proceeds of debt will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The General Manager will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issue, while complying with arbitrage and tax provisions.

7.4 Debt Coverage Target. The Authority will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in acceptable debt coverage ratios. In determining the affordability of a proposed debt financing, the Authority will perform an analysis comparing projected annual net revenues, after payment of operating and maintenance expenditures, to estimated annual debt service and the estimate debt coverage ratio. The debt coverage ratio is the amount of net cash flow available, divided by the annual interest and principal payments on debt.

7.5 Debt Service Reserve Balance. Authority staff will monitor dedicated debt service reserve fund balances, ensuring compliance with related reserve requirements (if applicable), and periodically review the advisability of prepayment or refunding of related debt. The financial advantages of a current refunding must outweigh the cost of issuing the refunding debt by a sufficient margin to justify it.

7.6 Call Options/Redemption Provisions. Authority staff will evaluate and recommend to the Board the use of a call option, if any, and a call protection period for each issuance. A call option, or optional redemption provision, gives the Authority the right to prepay or retire debt prior to its stated maturity. The option may permit the Authority to achieve interest savings in the future through refunding the debt. The cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the call premium, time until the debt may be called at a premium or at par, and interest rate volatility.

7.7 Debt Service Payments. Necessary appropriations for annual debt service requirements will be reflected in the Authority's annual budget. Staff is responsible for timely annual payments.

7.9 Continuing Disclosure Requirements. The Authority is responsible for ensuring that the Authority's annual financial statements, continuing disclosure reports, and material event notifications are posted on the Authority website and/or the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. The Authority may also contract with third-party consultant(s) to comply with its continuing disclosure obligations, and with Securities and Exchange Commission Rule 15c2-12(b)(5).

The Authority shall submit an annual report to CDIAC for any issuance of debt for which it has submitted a report of final sale on or after January 1, 2017. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

7.10 Investor Relations. Information that the Authority intends to make available to the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community shall be filed on the Authority website and the EMMA website.

The Authority will maintain proactive communications with the investment community, including rating agencies and investors, to ensure future capital market access at the lowest possible interest rates.

7.11 Records Retention. A copy of all relevant documents and records will be maintained by the Authority through the final maturity of the debt financing plus ten (10) years. Relevant documents and records will include sufficient documentation to support the requirements related to maintaining the tax-exempt status of the debt financing.