MARIN MUNICIPAL WATER DISTRICT

BOARD POLICY NO. 51

SUBJECT: DEBT MANAGEMENT POLICY

I. INTRODUCTION

The Marin Municipal Water District (District) Debt Management Policy sets forth debt management objectives for the District, establishes overall parameters for issuing and administering the debt portfolio, and provides policy guidelines to decision makers.

Implementation of the Debt Management Policy will help to ensure that the District maintains a sound debt position and protects its credit quality, as well as maintains compliance with California Government Code Section 8855 (i). The latter which requires any issuer of public debt to certify with the California Debt and Investment Advisory Commission (CDIC) that the issuer has adopted local debt policies concerning the use of debt and any proposed debt issuance is consistent with those policies. In addition, the District will file certain annual reports with CDIAC by January 31 of each year (first report due by January 31, 2018).

II. SCOPE

The Debt Management Policy governs debt issuance and administration activities of the District as defined in this policy.

III. POLICY STATEMENT

A. Financing Methodology

The District issues debt to raise funds for capital improvements.

1. Long Term Borrowing

Long term borrowing may be used to finance the acquisition or improvement of land, facilities or equipment when it is appropriate to spread the financing over more than one year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs.

2. **Short Term Borrowing**

Short term borrowing having a maturity of one year or less, may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs. It may be used to fund operating costs when issued and retired in the same fiscal year.

3. Debt Capacity

The District will keep outstanding debt within the practical limits of the District’s debt rating, debt service coverage ratio constraints and any other applicable law. The District’s policy is to limit total debt outstanding to four times total annual operating expenses. This will limit the magnitude of fixed expenses attributable to debt.

4. Debt Service Coverage

The District shall maintain strict compliance with covenants regarding coverage of annual debt service by net revenues embodied in the terms of debt instruments. In addition, the District intends to maintain an average debt service coverage ratio of 150%. This will support strong bond credit ratings and provide annual revenues to fund capital improvements.

5. Intergenerational Concerns

The District will review debt issuance in light of the balance between funding capital improvements from current revenue and from long-term debt and the impact each debt financing has relative to intergenerational benefits.

6. Credit Quality

The District seeks to obtain and maintain the highest possible credit ratings for all categories of short and long-term debt. Except for certain instruments, the District will not incur obligations that do not carry investment grade ratings (i.e. credit ratings below Baa3/BBB-/BBB- from Moody's Investors Service, S&P Global and Fitch Ratings, respectively). However, certain instruments, such as state loans or private placements, may not be rated.

Traditionally, the District has benefited from lower interest costs due to strong ratings and shall take any necessary steps to maintain favorable ratings, with a goal of at least AA+.

Ratings may be obtained from Moody's, S&P, Fitch, or other nationally recognized rating agencies. The District will always have at least one rating and when beneficial will request additional ratings for long term obligations that are publicly sold, whereas private placements may not require ratings.

4. Method of Sale

The Board of Directors or its designee shall be responsible for determining the appropriate way to offer any securities to investors and the most effective method of sale will be decided on a case by case basis.

5. Maturity

The District shall issue debt with an average life less than or equal to the average life of the assets being financed. The final maturity of the debt should be no longer than 40 years. Factors to be considered when determining the final maturity of debt include: the average life of the assets being financed, relative level of interest rates and the year-to-year differential in interest rates.

6. Maturity Structure

The District's long-term debt may include serial and term bonds. Serial bonds have sequential maturity dates scheduled at regular intervals. Term bonds have a long-term maturity date and single coupon and are redeemed in specified increments at set time intervals. Other maturity structures may also be considered which can be demonstrated to be consistent with the objectives of the District's Debt Management Policy.

7. Credit Enhancement

The District shall procure credit enhancement for a sale of bonds if the General Manager, in consultation with the Municipal Advisor, determines that it is cost effective to do so. Credit enhancement may be bond insurance or bank letters of credit.

8. Senior/Subordinate Lien

The District may utilize a senior/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 water rates, marketing considerations and previous issuance bond documents. Senior debt has priority over subordinate debt. Subordinated debt is payable each year only after other debts with a higher claim have been satisfied.

9. Redemption Features & Refunding Policy

To preserve flexibility and refinancing opportunities, the District debt will generally be issued with call provisions which enable the District to retire the debt earlier or enable the refunding of the debt prior to maturity. The District may consider calls that are shorter than traditionally offered in the market and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the District will evaluate the efficiency of call provisions alternatives.

10. Coupon Structure

Debt may include par, discount, premium and capital appreciation bonds. Discount, premium, and capital appreciation bonds must be demonstrated to be advantageous relative to par bond structures. Debt issued at par means it is sold at its face value. Debt issued at discount means that the selling price is less than face value, or at a discount. Debt issued at a premium means it is sold at an amount higher than the face value. Capital appreciation bonds increase in value over the life of the bond.

C. Communication and Disclosure

1. Rating Agencies

The District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The General Manager 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 shall include:

- Full disclosure, on an annual basis, of the financial condition of the District;
- A formal presentation when requested by 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 Comprehensive Annual Financial Report, following its acceptance by the District's Board of Directors; and
- Full and timely distribution of any documents pertaining to the sale of bonds.

2. Bond Insurers

The General Manager shall manage relationships with the analyst at the bond insurers assigned to the District's credit, if any.

3. Disclosure Procedures

The District shall comply with SEC regulations on disclosure, which require municipal debt issuers to provide specified financial and operating information at the time of new bond issuance (Official Statement) and during the life of the bonds (Continuing Disclosure Annual Report).

4. Trustee

The General Manager shall procure the services of a Trustee for the creation and maintenance of District debt related funds dictated by bond documents. Such accounts include, but are not limited to:

- Project,
- Escrow,
- Rebate,
- Debt Service,
- Cost of Issuance, and
- Reserve.

D Debt Administration

1. Investment of Bond Proceeds

Investment of bond proceeds shall be consistent with federal tax requirements and with requirements contained in the governing bond documents.

2. Record Retention and Disbursement of Bond Proceeds

The IRS guideline for record retention is life of bonds plus 3 years. For refundings, the refunded bonds retention schedule is reset to match the refunding bonds retention schedule of life of refunding bonds plus 3 years. The District's record retention policy is cancellation, redemption or maturity of the bonds plus 10 years.

<u>Frequency of Reimbursement/Claims preparation</u>
The preparation of reimbursement claims must be coordinated through the District's Administrative Service Division Manager/Treasurer to the appropriate level of funding from bond proceeds versus District operating reserves. The review of reimbursement requirements may be

performed on a quarterly basis to assess the appropriate amount and timing of reimbursement claims.

Reimbursement Period
In general, the reimbursement allocation is made not later than 18 months after the later of:

a. The date the original expenditure is paid; or
b. The date the project is placed in service or abandoned, but in no event more than 3 years after the original expenditure is paid.

3. Arbitrage Compliance

The Administrative Services Division shall obtain a qualified firm to perform Arbitrage Rebate Calculations for all District bond issuances and prepare reports and necessary filing documents as necessary. Ninety percent (90%) of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be rebated to the United States Internal Revenue Service (IRS) no later than 60 days after the end of each fifth Bond/COP Year. Additionally, should the Bonds/COPs be retired on or prior to final maturity, 100% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) as of such retirement date will become due and payable within 60 days.

4. Debt Service

The District shall fully budget all debt service obligations of the District annually. Utilizing the services of the Trustee, the District will make all debt service payments per the bond document schedule and shall not in any circumstance make the payment late.

5. Debt Administration

To ensure debt proceeds are used as intended, the District shall implement internal control procedures that include at least the following:

1) All reimbursement claims for bond funded capital projects shall be reviewed by the Administrative Services Division prior to submission to the Trustee.
2) District accounting staff shall prepare periodic reports on the use of debt proceeds for management and Board review and external reporting as required by State law.