



DEBT MANAGEMENT POLICY

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PROCESS OWNER: Darin Taylor

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I. LEGAL REQUIREMENTS

In the issuance and management of debt, Valley Water shall comply with all legal constraints and conditions imposed by federal, state, or local law, including the District Act and any contractual covenants associated with the debt.

The issuance and management of debt is governed by Board Governance Policy No. EL-4.7 as adopted and amended by the Board of Directors of the Santa Clara Valley Water District. Additionally, Board Resolution 17-11 adopted on March 14, 2017, authorized the Chief Operating Officer – Administration, Chief Financial Officer and the Treasury and Debt Officer to approve any amendments to the Debt Management Policy from time-to-time as necessary (see Attachment D).

The Investment Policy is included as an attachment to the Resolution Delegating Authority to Deposit and Invest Funds which is adopted by the Board of Directors annually.

1. Governing Law

i. The District Act

Valley Water is a multi-purpose special district duly organized and validly existing under the Constitution and the laws of the State of California. The District Act, which created Valley Water, is consulted when issuing debt for compliance.

ii. California Law

State law dictates certain requirements when issuing debt and certain statutes must be followed for any issuance or refunding.

iii. Federal Tax law

Valley Water 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.

iv. Governing Legal Documents (Current)

- a. The **Flood Control System Master Resolution** of Valley Water, adopted on June 23, 1994, as Resolution 94-60 and subsequent amendments establishes the basic security structure of flood control related debt issued by Valley Water, secured by Flood Control System Revenues including Flood Control Benefit Assessments. Key terms and conditions include, but are not limited to, the definition of pledged revenues, the rate covenant, and the additional bonds test.
- b. The **Water Utility Parity System Master Resolution**, adopted February 23, 2016, as Resolution 16-10 and subsequent amendments (Resolution 16-82 adopted December 13, 2016), establishes the parity lien security structure for water utility related debt issued by Valley Water, secured by Water Utility Revenues.



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- c. The **Safe, Clean Water Master Resolution**, adopted May 11, 2021, as Resolution 21-34, establishes the **parity lien** security structure for Safe, Clean Water Program related debt issued by Valley Water, secured by Safe, Clean Water Revenues, including the special parcel tax.
- v. **Obsolete Governing Legal Document**
The **Water Utility System Master Resolution**, adopted June 23, 1994, as Resolution 94-58 and subsequent amendments (Resolution 06-80 adopted November 28, 2006), established the **senior lien** security structure for water utility related debt issued by Valley Water prior to 2016. **The senior lien was terminated on June 1, 2022, upon the full redemption of the Water Utility System Refunding Revenue Bonds, Taxable Series 2006B.**

2. *Executive Limitation*

The Debt Policy complies with Valley Water Board Governance Policy - Executive Limitation (EL-4.7) (Revision as of July 29, 2015) which states that the Board Appointed Officer shall:

- 4.7 Not indebt the organization, except as provided in the District Act, and in an amount greater than can be repaid by certain, otherwise unencumbered, revenues within 90 days, or prior to the close of the fiscal year.
 - 4.7.1 Not issue debt (long or short-term obligations that are sold within the financial marketplace) that conflicts with the District Act or the legal authority of the District without Board authorization;
 - 4.7.2 Not issue debt without a demonstrated financial need;
 - 4.7.3 Meet debt repayment schedules and covenants of bond documents;
 - 4.7.4 Establish prudent District Debt Policies that are consistent with Board policies and provide guidance to employees in regards to administering the debt programs and agreements, including consideration for the appropriate level of debt for the District to carry and structuring debt repayment to address intergenerational benefits;
 - 4.7.5 Be consistent with the District's Debt Policies and any addendums when issuing debt;
 - 4.7.6 Maintain strong credit ratings and good investor relations.

II. POLICY STATEMENT

The Santa Clara Valley Water District ("District" or "Valley Water") Debt Management Policy sets forth debt management objectives for Valley Water, 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 Valley Water maintains a sound debt position and protects its credit quality, as well as maintain compliance with California



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Government Code section 8855 (i) which requires any issuer of public debt to certify with the California Debt and Investment Advisory Commission (CDIAC) that the issuer has adopted local debt policies concerning the use of debt and any proposed debt issuance is consistent with those policies as well as file certain annual reports with CDIAC by January 31 of each year (first report due by January 31, 2018).

A. Debt Issuance Principles

1. *Permitted Debt Type*

Valley Water may legally issue both short-term and long-term debt, using the debt instruments described below. The Financial Services Division, in consultation with the District Counsel, Bond Counsel and Financial Advisors, shall determine the most appropriate instrument for a proposed bond sale.

i. **General Obligation Bonds**

Valley Water is empowered, under its District Act, to levy taxes on all taxable property within its boundaries for the purpose of paying its voter approved general obligation bonds, subject to certain limitations in the District Act, the California Revenue and Taxation Code and the California Constitution. Valley Water is currently **not** authorized to sell general obligation bonds under Section 14 of the District Act. An amendment to the District Act, Section 17 to allow bonds to be paid by proceeds derived from an ad valorem property tax, subject to the approval of the State Legislature and the CA Governor, is required for Valley Water to be able to issue general obligation bonds payable from ad valorem taxes, provided that Valley Water obtains the approval of a two-thirds (2/3) majority of those voters in a local election.

ii. **Certificates of Participation**

Certificates of Participation (COPs) provide debt financing through a lease or installment sale agreement. Valley Water issuance of COPs is facilitated by the Santa Clara Valley Water District Public Facilities Financing Corporation, a California nonprofit benefit corporation that was created by the Valley Water specifically to serve as party to the installment sale agreements and contracts of indebtedness securing Valley Water COPs.

For the Water Utility, because Valley Water cannot issue Revenue Bonds to acquire new facilities or improvements with a net lien pledge, the authority to execute and deliver an Installment Purchase Agreement which will secure the COPs to be executed and delivered by the Santa Clara Valley Water District Public Facilities Financing Corporation (PFFC) is provided in Section 5 of the District Act.

For the Watershed Funds, a two-thirds (2/3) majority vote of the ratepayers is necessary to levy benefit assessments which would secure the COPs.



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iii. **Commercial Paper**

On December 17, 2002, the Board of Directors passed Resolutions 02-76 and 02-77 which authorized the execution and delivery of a taxable and tax-exempt Tax and Revenue Anticipation Notes (“TRANs”) to support the Commercial Paper Program. Each fiscal year, the Board approves new resolutions for new TRANs to support the Commercial Paper Program. Voter approval is not required to issue commercial paper and the proceeds of commercial paper may be used for Valley Water purposes, including, but not limited to, capital expenditure, investment and reinvestment, and the discharge of any obligation or indebtedness of Valley Water .

Commercial Paper is intended to be utilized as a short-term financing tool for bridge financing. Valley Water will issue Commercial Paper in amounts up to the authorized limit with the intention of paying off the outstanding Commercial Paper debt when a long-term bond is issued, or another source of revenue has been identified. Due to the quickness and ease of issuing Commercial Paper, it could be looked upon as “just-in-time” financing.

iv. **Revenue Bonds**

The authority to issue Revenue Refunding Bonds is provided in Section 25.1 of the District Act and Sections 53580-53589.5 of the California Government code.

In the special election of November 6, 1984, voter approval was granted for revenue bonds only on a gross lien basis and only in accordance with certain limitations set forth in the Revenue Bond Law of 1941. Without an amendment to Section 25.2 (b) of the District Act to allow Valley Water to issue water revenue bonds on a net lien basis and payable from all water utility revenues including the 1% property taxes, Valley Water cannot issue Revenue Bonds without voter approval.

Refunding Revenue Bonds may be issued without voter approval. Staff should consult with Bond Counsel for further directions on this matter.

v. **Assessment Bonds**

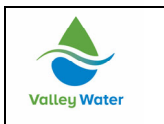
Valley Water is authorized to issue assessment bonds upon majority (>50%) voter approval. Such bonds are typically repaid from assessments collected within an assessment district. Assessments are levies of charges on real property to pay for projects or services that specifically benefit that parcel of property.

vi. **Refunding Bonds**

Refunding outstanding bonds that will provide a net economic benefit to Valley Water is allowable within the federal tax law constraints.

vii. **Loans, Letters of Credit, Lines of Credit**

Valley Water may from time to time borrow through a loan with a commercial bank, Letter of Credit, Lines of Credit with a commercial bank, state revolving loan program or other governmental agency. Each loan will have a specific purpose. Voter approval is not



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required for obtaining a loan if such loan is structured as a COP, TRAN, or other forms and issued in conjunction with the PFFC.

2. Limitations of Debt Issuance

i. Long Term Borrowing

Long term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than a one-year budget. Long term borrowing may also be used to fund capitalized interest, cost 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. The maximum maturity may not exceed 40 years.

ii. Short Term Borrowing

Short-term borrowing, such as TRANS (tax and revenue anticipation notes), commercial paper and lines of credit, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs. TRANS and Commercial Paper may be used to fund operating costs when issued and retired in the same fiscal year. The short-term borrowing authority set in Section 25.6 of the special legislation which formed the Santa Clara Valley Water District (the District Act) provides a limit on short term debt (maturity of less than five years) of \$8,000,000 that can be borrowed under authority of that section. Valley Water’s commercial paper program, issued in accordance with the Government Code, is not subject to Section 25.6 of the District Act limit as opined by District Counsel and is issued in a transaction with the PFFC and others.

B. Debt Issuance

1. Debt Capacity

Valley Water will keep outstanding debt within the practical limits of the Valley Water’s debt rating, debt service coverage ratio constraints and any other applicable law.

Valley Water shall assess the impact of a new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that Valley Water has limited capacity for debt service in its budget, and that each newly issued financing will obligate Valley Water to a series of payments until the bonds are repaid.

Valley Water must not only evaluate Valley Water as a whole, but specifically analyze debt capacity in relationship to issuances in the Watershed Funds, Water Utility Enterprise Division, and the General Fund. Each Division has its own complexities, constraints, and regulations; therefore, they must be analyzed separately and then as a whole.



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3. *Intergenerational Concerns*

Valley Water will review the issuance considering utilizing Pay-As-You-Go financing vs. Long-Term debt and impact each financing method has on intergenerational benefits.

4. *Credit Quality*

Valley Water seeks to obtain and maintain the highest possible credit ratings for all categories of short and long-term debt. Except for certain instruments, Valley Water will not issue bonds or cause COPs to be executed and delivered 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). Certain instruments, such as state loans or private placements, may not be rated.

Traditionally, Valley Water has benefited from lower interest costs due to strong ratings and shall take any necessary steps to maintain favorable ratings.

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

5. *Structural Features*

i. **Debt Repayment**

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. Valley Water shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

ii. **Fixed Rate Debt / Variable Rate Debt**

Valley Water may at its discretion issue fixed rate debt or variable rate debt based upon Valley Water needs and market conditions. Fixed rate debt means that the coupon of the bond until its maturity remains fixed or the same as when issued. Variable rate debt means that the coupon will fluctuate throughout the life of the debt instrument. The variable rate may be based upon several indexes and which index will be determined at the time of issuance.

iii. **Derivatives**

A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index. In certain circumstances these products can reduce borrowing costs, assist in managing interest rate risk, provide call flexibility, and smooth debt service expense. However, these products carry with them certain risks not faced in standard debt instruments. The Financial Services Division shall



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evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs.

Some common forms of derivatives may be used to reduce the cost of borrowing; synthetically convert fixed rate debt to variable rate debt; synthetically convert variable rate debt to fixed rate debt; and provide protection against interest rate fluctuations (see section **1.E. Master Swap Policy** below for more information).

iv. **Professional Assistance**

Valley Water shall utilize the services of independent municipal advisors when deemed appropriate by the CEO or their delegates. Valley Water shall utilize the services of bond counsel on all debt financings. The CEO or their delegates shall have the authority to periodically select service providers necessary to meet legal requirements and minimize Valley Water's debt cost. Such services, depending on the type of financing, may include municipal advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, printer, and special tax consulting. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost. Procurement for service providers shall follow Executive Limitations Policy EL-5 Procurement, as amended from time to time. Per EL-5 Procurement (Rev July 29, 2015) the CEO is authorized to execute contracts for consultant services up to \$225,000; contracts exceeding this limit would require Board approval. The District Counsel has sole discretion in entering legal services contracts with no dollar limit.

v. **Method of Sale**

Except to the extent a competitive process is required by law, the CEO or their delegates shall be responsible for determining the appropriate way to offer any securities to investors. Valley Water has used both competitive bidding and negotiated sales to sell its bonds. Also, available to Valley Water is a private placement method. On a case-by-case basis the CEO or their delegates will decide as to the most effective method of sale.

For negotiated sale, any underwriters that are currently suspended by the California State Treasurer's Office from its negotiated underwriting pool may not participate in Valley Water's negotiated sale, pending Board approval.

vi. **Maturity**

Valley Water 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.

vii. **Maturity Structure**

Valley Water's long-term debt may include serial and term bonds. Serial bonds have various maturity dates scheduled at regular intervals until the entire issue is retired. Term



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bonds have a long-term maturity date and are outstanding until the debt is retired. Other maturity structures may also be considered which can be demonstrated to be consistent with the objectives of Valley Water's Debt Policy.

viii. Credit Enhancement

Valley Water shall procure credit enhancement for a sale of bonds if the Financial Services Division, in consultation with the Municipal Advisor and the Underwriters, determines that it is cost effective to do so. Credit enhancement consists primarily of insuring the bonds over the life of their term.

ix. Parity/Subordinate/Super-subordinate Lien

Valley Water may utilize a parity/subordinate/super-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 consideration and previous issuance bond documents. Parity debt has priority over subordinate debt which in turn has priority over super-subordinate debt. Subordinated or super-subordinate debt is repayable only after other debts with a higher claim have been satisfied (i.e., parity debt, subordinate debt).

x. Redemption Features

To preserve flexibility and refinancing opportunities, Valley Water debt will generally be issued with call provisions which enable Valley Water to retire the debt earlier or enable the refunding of the debt prior to maturity. Valley Water 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, Valley Water will evaluate the efficiency of call provisions alternatives.

xi. 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*

Valley Water shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The Financial Services Division shall manage relationships with the rating analysts assigned to Valley Water'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 Valley Water;



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- A formal presentation when requested by the rating agencies, covering economic, financial, operational and other issues that impact Valley Water's credit;
- Timely disclosure of major financial events that impact Valley Water's credit;
- Timely dissemination of the Comprehensive Annual Financial Report, following its acceptance by the Valley Water's Board of Directors;
- Full and timely distribution of any documents pertaining to the sale of bonds; and
- Periodic tours of the Water Utility Enterprise and Watershed operations as appropriate.

2. *Bond Insurers*

The Financial Services Division shall manage relationships with the analyst at the bond insurers assigned to the Valley Water's credit.

3. *Disclosure Procedures*

Valley Water shall comply with Securities and Exchange Commission ("SEC") and Municipal Securities Rulemaking Board ("MSRB") regulations on disclosure, including SEC Rule 15c2-12 (the "Rule"), 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). **Refer to Attachment A-Disclosure Procedures for details.**

Effective February 27, 2019, District Counsel will provide written notice to debt management staff of receipt by Valley Water or the Financing Corporation 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") under any agreement or obligation to which Valley Water or the Financing Corporation is a party and which may be a "financial obligation" as discussed below. Such written notice should be provided by District Counsel to debt management staff as soon as District Counsel is placed on written notice by Valley Water staff, consultants, or external parties of such event or receives written notice of such event so that debt management staff 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 Agreement for the various debt obligations of Valley Water; District Counsel or other senior staff (i.e. Chief Executive Officer, Chief Operating Officer, Chief Financial Officer or other executive positions within Valley Water), as applicable, will report to debt management staff the execution by Valley Water or the Financing Corporation 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 Valley Water or Financing Corporation agreements or obligations with "financial obligation" which relate to covenants, events of default, remedies, priority rights, or other similar terms should be reported to the debt management staff as well as soon as District Counsel or such other senior staff is placed on written notice by Valley Water staff,



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consultants, or external parties of such event or receives written a notice of such amendment requests. Notice to debt management staff is necessary so that debt management staff 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 discussed in the memorandum from bond counsel attached hereto in **Attachment A-Disclosure Procedures for details.**

4. *Secondary Market Disclosure*

On February 7, 2020, the SEC released a staff legal bulletin (the “Bulletin”) concerning secondary market disclosure in the municipal bond market. The Bulletin included SEC staff views on a variety of matters, including but not limited to, the applicability of the federal securities law to public agency websites, reports delivered to governmental and institutional bodies and statements made by public officials including elected board members. Documents, reports and other written statements of Valley Water which contains current financial and operational conditions of Valley Water will be included in a section of Valley Water’s website appropriately identified. Valley Water and its bond counsel have reviewed the Bulletin and have incorporated certain SEC staff recommendations into this Policy as set forth in this section I.C4 and into disclosure training for staff and Board members. Valley Water and its bond counsel will be cognizant of the SEC staff reviews contained in the Bulletin as secondary market disclosures arise.

5. *Trustee*

The Financial Services Division shall procure the services of a Trustee for the creation and maintenance of Valley Water debt funds. Such accounts include, but are not limited to:

- 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. Additionally, they will be governed by policies and procedures specified in Valley Water’s Investment Policy as approved by the Board of Directors.



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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. Valley Water's record retention policy is cancellation, redemption or maturity of the bonds plus 10 years (records series number RS-0538).

Frequency of Reimbursement/Claims preparation

The preparation of reimbursement claims must be coordinated with the Financial Planning unit to determine the allocation of taxable versus tax-exempt bond proceeds and the appropriate level of funding from bond proceeds versus Valley Water 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 allocation of tax-exempt bond proceeds to reimburse a capital expenditure paid prior to the issue date of the bonds (provided that the Board has adopted a Resolution of Intention to Issue Tax-Exempt Bonds prior to the issue date of the bonds) must be made **not later** than: (a) 18 months after the later of the date (i) the original expenditure is paid or (ii) the project is placed in service or abandoned; **and** (b) 3 years after the original expenditure is paid.

Special rule for long-term construction projects

For a construction project for which both the issuer and a licensed architect or engineer certify that at least 5 years is necessary to complete construction of the project, the maximum reimbursement period is changed from "3 years" to "5 years".

Special rule for preliminary expenditures

Preliminary expenditures (e.g., architectural costs, engineering costs, surveying costs, soil testing costs, costs of issuance and similar costs) not exceeding 20% of the issue price of the bonds issued to finance the project may be reimbursed without regard to the official intent requirement and the timing requirements. Preliminary expenditures do not include land acquisition, site preparation, and similar costs related to commencement of construction.

Refer to Attachment B– *Record Retention and Disbursement Guidelines* for details.

3. *Arbitrage Compliance*

The Financial Service Division shall engage a qualified firm to perform Arbitrage Rebate Calculations ("Rebate Service Provider") for all Valley Water bond issuances and prepare reports and filing documents as necessary. Ninety percent (90%) of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be rebated (paid) to the United States Internal Revenue Service (IRS) no later than 60 days after the end of each fifth Bond/COP Year. Additionally, 100% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) required to be paid to the IRS within 60 days of



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the full defeasance or final maturity of the Bonds/COPs (i.e., in the event of a refunding or refinancing).

4. Debt Service

Valley Water shall fully budget all debt service obligations of Valley Water. Utilizing the services of the Trustee, Valley Water will make all debt service payments per the bond document schedule and shall not in any circumstance make the payment late. The interest and principal for commercial paper may be rolled into a new issue of commercial paper as part of the overall Valley Water financing plan. The commercial paper may also be budgeted to be fully paid off over a specified timeframe or it may be paid off with a bond issuance.

E. Master Swap Policy

Valley Water currently has no swap transactions outstanding and has not entered any swap transactions in the last ten fiscal years. Any future swap transaction would require Board approval by resolution and shall utilize the framework set forth in Attachment C – Swap Policy.

Valley Water shall not enter into any swap or hedging transaction that is speculative or creates extraordinary leverage or risk with respect to the SCW Program and the Water Utility Enterprise, without the prior written consent of the United States Environmental Agency/Water Infrastructure Finance and Innovation Act (WIFIA) Lender, so long as Valley Water and/or the PFFC have outstanding WIFIA loans.

III. PURPOSE

The purpose of this Debt Management Policy is to assist Valley Water in meeting the following objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit ratings;
- Make full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Comply with the District Act; and
- Ensure compliance with applicable State and Federal Laws.



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IV. SCOPE, ASSUMPTIONS & EXCEPTIONS

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

V. ROLES & RESPONSIBILITIES

The Financial Services Division shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Financial Services Division will work in partnership with the Capital Services Division and Watershed and Water Utility Enterprise Divisions to facilitate debt issuance and the management of outstanding debt.

The Investment Advisory Committee (consisting of Chief Operating Officer - Administration, Chief Financial Officer, Treasury and Debt Officer, District Counsel and Accounting Unit Manager) will meet quarterly or as needed to review and approve all staff policy guidelines.

The Board of Directors shall approve and authorize the issuance of debt, including refunding debt.

VI. DEFINITIONS

Refer to specific debt issuance documents for defined terms.

VII. CHANGE HISTORY

DATE	REVISION	COMMENTS
3/29/2012	A	Superseded 2008-03 with minor editorial corrections and includes the Addendum to Valley Water Debt Policy for the Master Swap Policy.
9/13/2012	B	Updated linkage to Board Governance
03/01/2016	C	Updated the Debt Policy and added additional information in Attachments A and B
01/01/2017	D	Updated the Debt Policy and added reference to California Government Code 8855 (i) and other modifications
03/24/2017	E	Updated the Debt Policy with additional Post Issuance Tax Compliance requirements
01/22/2019	F	Updated the Debt Policy to comply with additional disclosure requirements pursuant to SEC Rule 15c2-12 effective February 27, 2019.
07/01/2020	G	Updated the Debt Policy to include secondary market disclosure requirements.



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DATE	REVISION	COMMENTS
07/01/2022	H	(1) Remove from Administrative Policy System pursuant to Board Resolution 17-11 (see Attachment D) that delegated the authority to approve any amendments to the Chief Operating Officer – Administration, Chief Financial Officer and Treasury and Debt Officer. (2) Updated Section I - Legal Requirements section



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Attachment A – Disclosure Procedures

PURPOSE

The purpose of these Disclosure Procedures (the “Procedures”) is to memorialize and communicate procedures in connection with obligations, including notes, bonds, and certificates of participation, issued by or on behalf of the Santa Clara Valley Water District (the “District”) so as to ensure that Valley Water continues to comply with all applicable disclosure obligations and requirements under the federal securities laws.

BACKGROUND

Valley Water from time-to-time issues certificates of participation, revenue bonds, notes or other obligations (collectively, “Obligations”) to fund or refund capital investments, other long-term programs and working capital needs. These Obligations may be issued directly by Valley Water, on behalf of Valley Water by the Santa Clara Valley Water District Public Facilities Financing Corporation or through joint powers agencies (collectively, the “Issuer”). In offering Obligations to the public, and at other times when making certain reports, Valley Water and/or the Issuer (if other than Valley Water) must comply with the “anti-fraud rules” of federal securities laws. (“Anti-fraud rules” refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934, and regulations adopted by the Securities and Exchange Commission under those Acts, particularly “Rule 10b-5” under the 1934 Act.)

The core requirement of these rules is that potential investors in Obligations must be provided with all “material” information relating to the offered Obligations. The information provided to investors must not contain any material misstatements, and Valley Water and/or the Issuer (if other than Valley Water) must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the Valley Water’s financial condition. In the context of the sale of securities, a fact is considered to be “material” if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the securities being offered.

When Obligations are issued, the two central disclosure documents which are prepared are typically a preliminary official statement (“POS”) and a final official statement (“OS”, and collectively with the POS, “Official Statement”). The Official Statement generally consists of (i) the forepart (which describes the specific transaction including maturity dates, interest rates, redemption provisions, the specific type of financing, the leased premises (in certificate of participation financings) and other matters particular to the financing, (ii) a section which provides information on Valley Water, including its financial condition as well as certain operating information of the water division, the watershed division or information with respect to other sources of security as applicable (“District Section”), and (iii) various other appendices, including Valley Water’s audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking. Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding the Obligations.



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DISCLOSURE PROCESS

When Valley Water determines to issue Obligations, Valley Water's Treasury and Debt Officer will coordinate a Disclosure training and request the involved departments to commence preparation of the portions of the Official Statement (including particularly the District Section) for which they are responsible. While the general format and content of the District Section does not normally change substantially from offering to offering, except as necessary to reflect major events, Valley Water's Treasury and Debt Officer is responsible for reviewing and preparing or updating certain portions of the District Section which are within their particular area of knowledge. Once the Official Statement has been substantially updated, the entire Official Statement is shared with the Chief Executive Officer (CEO), Assistant CEO, Chief Financial Officer, Chief Operations Officer (Water Utility or Watershed, depending on the Obligation), and District Counsel for review and input. The officers of Valley Water are requested to inform the financing team of any and all material changes that takes place up to and including the closing date of the transaction. for review and input. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire Official Statement.

Members of the financing team, including the Bond Counsel and Valley Water's Municipal Advisor with respect to the Obligations, assist staff in determining the materiality of any particular item, and in the development of specific language in the District Section. Members of the financing team also assist Valley Water in the development of a "big picture" overview of Valley Water's financial condition, included in the District section. This overview highlights particular areas of concern. Bond Counsel has a confidential, attorney-client relationship with officials and staff of Valley Water.

Valley Water's Treasury and Debt Officer or a member of the financing team at the direction thereof schedules one or more meetings or conference calls of the financing team (which includes Valley Water officials, Bond Counsel, Valley Water's Municipal Advisor, the underwriter of the Obligations, and the underwriter's counsel), and new drafts of the forepart of the Official Statement and the District Section are circulated and discussed. Such communications may occur via electronic means rather than by meetings or conference calls. During this part of the process, there is substantial contact among Valley Water staff and other members of the financing team to discuss issues which may arise, determine the materiality of particular items and ascertain the prominence in which the items should be disclosed.

For negotiated sales, prior to distributing a POS to potential investors, there is typically a formal conference call which includes senior Valley Water staff involved in the preparation of the POS, members of the financing team and the underwriters and the underwriter's counsel, during which the Official Statement is reviewed in its entirety to obtain final comments and to allow the underwriters to ask questions of Valley Water's senior officials. This is referred to as a "due diligence" meeting.

A substantially final form of the POS is provided to Valley Water Board of Directors in advance of approval to afford the Board of Directors an opportunity to review the POS, ask questions and make comments. The substantially final form of the POS is approved by the Board(s) of Directors which generally authorizes certain senior staff to make additional corrections, changes, and updates to the POS in consultation with District Counsel and Bond Counsel.

At the time the POS is posted for review by potential investors, senior Valley Water officials (and under certain circumstances the Issuer) execute certificates deeming certain portions of the POS complete (except for certain pricing terms) as required by SEC Rule 15c2-12.



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Between the posting of the POS for review by potential investors and delivery of the final OS to the underwriter for redelivery to actual investors in the Obligations, any changes and developments will have been incorporated into the POS, including particularly the District Section, if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published.

In connection with the closing of the transaction, one or more senior Valley Water officials (and under certain circumstances the Issuer) execute certificates stating that certain portions of the Official Statement, as of the date of each OS and as of the date of closing, do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the Official Statement in light of the circumstances under which they were made, not misleading. District Counsel also provides an opinion letter (generally addressed to the underwriters) advising that information contained in the section of the Official Statement relating to Valley Water and its operations (or specified portions thereof) as of its date did not, and as of the date of the closing, does not contain any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. District Counsel does not opine to the underwriters to other third parties as to any financial, statistical, economic, or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and certain other customary matters.

DISTRICT SECTION

The information contained in the District Section is developed by personnel under the direction of the Treasury and Debt Officer. The Treasury and Debt Officer co-ordinates with Water Utility staff in the case of a water system financing or with Watershed staff in the case of a watershed system or Clean, Safe Water financing. The finance team assists as well in certain circumstances, additional officials will be involved, as necessary. The following principles govern the work of the respective staffs that contribute information to the District Section:

- Valley Water staff involved in the disclosure process is responsible for being familiar with its responsibilities under federal securities laws as described above.
- Valley Water staff involved in the disclosure process should err on the side of raising issues when preparing or reviewing information for disclosure. Officials and staff are encouraged to consult District Counsel, Bond Counsel or members of the financing team if there are questions regarding whether an issue is material or not.
- Care should be taken not to shortcut or eliminate any steps outlined in the Procedures on an ad hoc basis. However, the Procedures are not necessarily intended to be a rigid list of procedural requirements, but instead to provide guidelines for disclosure review. If warranted, based on experience during financings or because of additional SEC pronouncements or other reasons, Valley Water should consider revisions to the Procedures.
- The process of updating the District Section from transaction to transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the District Section at the time of each update, everyone



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involved in the process should consider the need for revisions in the form, content, and tone of the sections for which they are responsible at the time of each update.

- Valley Water must make sure that the staff involved in the disclosure process is of sufficient seniority such that it is reasonable to believe that, collectively, they are in possession of material information relating to Valley Water, its operations and its finances.

TRAINING

Periodic training for the staff involved in the preparation of the Official Statement (including the District Section) is coordinated by the finance team and the Treasury and Debt Officer. These training sessions are provided to assist staff members involved in identifying relevant disclosure information to be included in the District Section. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the Official Statement and the District Section, a description of previous SEC enforcement actions and a discussion of recent developments in the area of municipal disclosure. Attendees at the training sessions are provided the opportunity to ask questions of finance team members, including Bond Counsel concerning disclosure obligations and are encouraged to contact members of the finance team at any time if they have questions.

ANNUAL CONTINUING DISCLOSURE REQUIREMENTS

In connection with the issuance of Obligations, Valley Water has entered into several contractual undertakings (“Continuing Disclosure Undertakings”) to provide annual reports related to its financial condition (including its audited financial statements) as well as notice of certain events relating to the Obligations specified in the Continuing Disclosure Undertakings. Valley Water must comply with the specific requirements of each Continuing Disclosure Undertaking. Valley Water’s Continuing Disclosure Undertakings generally require that the annual reports be filed by April 1 following the end of Valley Water’s fiscal year, and event notices are required to be filed within 10 business days of their occurrence. Filing is centralized on the MSRB’s Electronic Municipal Market Access (“EMMA”) web site and portal.

Specific events which require “material event” notices are set forth in each particular Continuing Disclosure Undertaking.

The Treasury and Debt Officer shall be responsible for preparing and filing the annual reports and material event notices required pursuant to the Continuing Disclosure Undertakings. Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations).

Memorandum from Stradling Yocca Carlson & Rauth on Financial Obligations (dated 1/18/19)

An amendment to Securities and Exchange Commission (the “SEC”) Rule 15c2-12 (the “Rule”) becomes effective as to underwriters of publicly offered municipal securities on February 27, 2019 (the “Effective Date”). As a result, we would expect that with respect to any debt offered publicly by Valley Water or the Financing Corporation after the Effective Date to which the Rule applies Valley Water will be required to enter into a continuing disclosure undertaking pursuant to which it will agree to



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provide notice on the EMMA electronic reporting system (“EMMA”) of the incurrence of any “financial obligation” if material and will be obligated to disclose default on and certain other information with respect to any “financial obligation” regardless of when the financial obligation was incurred.

The Rule provides a general definition of a “financial obligation.” While the impetus for the proposed changes to the Rule was a perception by the SEC and others that municipal issuers were increasingly entering into bank or other private placement debt, the final amendment to the Rule 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 release accompanying the final amendment does suggest 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 did indicate that the SEC will not look to state law definitions of a “guarantee” or “debt”.

Valley Water will need to monitor agreements or other obligations entered into by Valley Water or the Financing Corporation after the Effective Date, and any modifications to such agreements or other obligations, carefully to determine whether they constitute “financial obligations” under the Rule and, if material, would need to be disclosed on EMMA within 10 business days of execution or incurrence.

In addition, if Valley Water or the Financing Corporation 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 after the Effective Date, Valley Water strict 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 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 Valley Water’s publicly offered debt;
- 5 Letters of credit, including letters of credit which are provided to third parties to secure Valley Water or Financing Corporation’s obligation to pay or perform (an example of this is a standby letter of credit delivered to secure Valley Water’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).



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Types of agreements which could be a “financial obligation” under the Rule include:

- 1 Payment agreements which obligate Valley Water or the Financing Corporation to pay a share of another public agency’s debt service (for example, an agreement with a joint powers agency whereby Valley Water or the Financing Corporation 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 Valley Water or Financing Corporation is obligated to pay a share of such public agency 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 Valley Water or the Financing Corporation is obligated to pay amounts expressly tied to the other party’s debt service obligations, regardless of whether service is provided or not (for example, Valley Water’s SWP contract); 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 (for example, Valley Water CVP water service contract).

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;

The above list is based on bond counsel advice as of January 18, 2019. Debt management staff will continue to work with District Counsel and bond counsel to refine the definition of financial obligation going forward based on future SEC guidance, if any.



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Attachment B – Post-Issuance Tax Compliance, Record Retention and Disbursement Guidelines

I. General

Valley Water’s Treasury and Debt Officer (the “Tax Compliance Officer”) shall be responsible for overseeing compliance with the provisions of this Policy.

External Advisors / Documentation

Valley Water shall consult with bond counsel and/or other legal counsel and advisors, as needed, following issuance of bonds or other tax-exempt obligations to ensure that all applicable post-issuance requirements generally set forth in the Tax Certificate for the bonds (the “Tax Certificate”) are met. This shall include, without limitation, consultation in connection with any potential changes in the use of Bond-financed or refinanced Projects (as defined herein).

Unless otherwise provided by the indenture (or similar document) relating to the bonds, unexpended bond proceeds shall be held by a trustee or other financial institution, and the investment of bond proceeds shall be managed by Valley Water. Valley Water shall prepare (or cause the trustee or other financial institution to prepare) regular, periodic statements regarding the investments and transactions involving Bond proceeds.

Arbitrage Rebate and Yield Restrictions

The Tax Compliance Officer shall be responsible for overseeing compliance with arbitrage rebate and yield restriction requirements under federal tax law. Unless otherwise indicated, in writing, in the Tax Certificate or other similar documents that are prepared in connection with the issuance of the Bonds, Valley Water shall:

- Engage the services of a Rebate Service Provider and, prior to each rebate calculation date, cause the trustee or other financial institution investing Bond proceeds to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider;
- Provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
- Monitor the efforts of the Rebate Service Provider;
- Assure the payment of required arbitrage rebate amounts, if any, no later than the applicable deadline under federal tax law;
- Retain copies of all arbitrage reports and trustee statements as described below under “Record Keeping Requirements;” and
- Establish procedures to ensure that investments that are acquired with Bond proceeds are so acquired at their fair market value pursuant to federal tax law.



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Use of Bond Proceeds and Bond-Financed or Refinanced Projects

The Tax Compliance Officer shall be responsible for:

- communicating to appropriate Valley Water staff with respect to the use of Bond proceeds (including investment earnings and including reimbursement of expenditures made before Bond issuance) and the use of Bond-financed or refinanced projects, such as facilities, furnishings or equipment (each a “Project” and collectively, “Projects”) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds;
- consulting with bond counsel and other legal counsel and advisers in the review of any change in use, or potential change in use, of Bond-financed or refinanced Projects communicated to the Tax Compliance Officer by appropriate Valley Water staff to ensure compliance with all covenants and restrictions set forth in the Tax Certificate relating to the Bonds; and
- to the extent that Valley Water discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced Projects will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified Bonds or take other remedial action, if such counsel advises that a remedial action is necessary.

Education and Training

The Tax Compliance Officer and appropriate staff of Valley Water shall periodically and as necessary obtain education and training on federal tax requirements for post-issuance compliance applicable to the Bonds. Valley Water will enable and encourage relevant personnel to attend and participate in educational and training programs offered by professional organizations and other entities with regard to monitoring compliance with federal tax requirements for the Bonds.

Correcting Non-Compliance

If any non-compliance of applicable federal tax requirements is identified or otherwise brought to Valley Water’s attention, the Tax Compliance Officer shall, in consultation with legal counsel and the appropriate tax compliance personnel of the Valley Water, cause the Valley Water and any other parties involved with the issuance of the Bonds or the use of the proceeds of the Bonds, as required, to take all steps necessary or advisable in order to timely correct or remediate such non-compliance. The Tax Compliance Officer will conduct periodic reviews of compliance with these procedures to determine whether any violations have occurred so that such violations can be remedied through the “remedial action” regulations (Treas. Reg. Section 1.141-12) or the Treasury’s Tax-Exempt Bonds Voluntary Closing Agreement Program (“TEB VCAP”) described in IRS Notice 2008-31 (or successor guidance). If any changes to the terms or provisions of a bond issue are contemplated, the Tax Compliance Officer will consult bond counsel. Valley Water recognizes and acknowledges that such modifications could result in a “reissuance” for federal tax purposes (i.e., a deemed refunding) of the bonds and thereby jeopardize the tax-exempt status of interest on the Bonds after the modifications.



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II. Record Retention*

1. Record retention schedule: The IRS guideline 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.[†] Per records series RS-0538 on the records retention schedules adopted by the Valley Water Board of Directors, Valley Water's record retention policy is cancellation, redemption or maturity of the bonds plus 10 years (records series number RS-0538).
2. Valley Water **Treasury and Debt Officer** shall be responsible for retaining all documentation relating to the issuance and administration of bonds. Such records shall include, but not limited to the following:
 - a. Federal tax or information returns (e.g. Form 8038 series returns)
 - b. Annual Continuing Disclosure and Compliance Filings per the bond covenants which may contain Audited Financial Statements and other documents as specified
 - c. Bond transcripts, official statements and other offering documents
 - d. Trustee statements for your bond financings
 - e. Correspondence (letters, e-mails, faxes, etc.) for your bond financings
 - f. Reports of any prior IRS examinations of your entity or bond financings
 - g. Maintain records documenting the allocation of bond-financing proceeds to expenditures (e.g., allocation of bond proceeds to expenditures for the construction, renovation, or purchase of facilities you own and use in the performance of your public purpose)
 - h. Records documenting the allocations of bond-financing proceeds to bond issuance costs
 - i. Asset list or schedule of all bond-financed facilities or equipment
 - j. Depreciation schedules for bond-financed depreciable property
 - k. Records that track your purchases and sales of bond-financed assets
 - l. Records of trade or business activities by or with non-governmental entities or persons with respect to your bond-financed facilities
 - m. Copies of the following agreements when entered into with respect to your bond-financed property:
 - i. Management and other service agreements
 - ii. Research contracts
 - iii. Naming rights contracts
 - iv. Ownership documentation (e.g., deeds, mortgages)
 - v. Leases
 - vi. Subleases
 - vii. Leasehold improvement contracts
 - viii. Joint venture arrangements
 - ix. Limited liability corporation arrangements

* Source: IRS Form 14002 Governmental Bond Financings Compliance Check Questionnaire.
<http://www.irs.gov/pub/irs-tege/f14002.pdf>

[†] Tax Exempt Bond FAQs regarding Record Retention Requirements

<https://www.irs.gov/tax-exempt-bonds/tax-exempt-bond-faqs-regarding-record-retention-requirements>



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- x. Partnership arrangements
 - n. The allocations and earnings and investments related to bond financings
 - o. Records for investments of bond financing proceeds related to:
 - i. Investment contracts (e.g., guaranteed investment contracts)
 - ii. Credit enhancement transactions (e.g., bond insurance contracts)
 - iii. Financial derivatives (swaps, caps, etc.)
 - iv. Bidding of financial products
 - p. Records of the following arbitrage documents related to bond financings:
 - i. Computations of bond yield
 - ii. Computation of rebate and yield reduction payments
 - iii. Form 8038-T, *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*
 - iv. Form 8038-R, *Request for Recovery of Overpayments Under Arbitrage Rebate Provisions*
 - v. Draw down schedules and expenditure requirements detailed in applicable tax certificates and schedules regarding yield restriction if applicable
3. The **Grants Administrator** shall be responsible retaining all documentation relating to the disbursement of bond proceeds. Such records shall include, but not limited to the following:
- a. Maintain copies of requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks related to bond proceeds spent during the construction period
 - b. Maintain copies of all contracts entered into for the construction, renovation, or purchase of bond-financed facilities
 - c. Maintain records of expenditure reimbursements incurred prior to issuing bonds for facilities financed with bond proceeds

III. Bond Reimbursement

1. General Rule for Reimbursement. Tax-exempt bond proceeds may be allocated to reimburse prior expenditures so long as those expenditures were the subject of an appropriate "declaration of official intent" (e.g., a reimbursement resolution), the expenditures were paid no more than 60 days prior to the date of adoption such declaration of official intent, the bond-financed project was placed in service within 18 months of the date of reimbursement allocation, the expenditures constitute capital expenditures, and none of the expenditures were paid more than three years prior to the reimbursement allocation (except preliminary expenditures).
2. Frequency of Reimbursement/Claims preparation. The preparation of reimbursement claims must be coordinated with the Financial Planning unit to determine the allocation of taxable versus tax-exempt bond proceeds and the appropriate level of funding from bond proceeds versus Valley Water operating reserves. The review of reimbursement requirements should be performed on a quarterly basis to assess the appropriate amount and timing of reimbursement claims.
3. Reimbursement period. In general, the allocation of tax-exempt bond proceeds to reimburse a capital expenditure paid prior to the issue date of the bonds must be made not later than: (a) 18 months after the later of the date (i) the original expenditure is paid or (ii) the project is placed in service or abandoned, and (b) 3 years after the original expenditure is paid.



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- 4. Special rule for long-term construction projects. For a construction project for which both the issuer and a licensed architect or engineer certify that at least 5 years is necessary to complete construction of the project, the maximum reimbursement period is changed from “3 years” to “5 years”.
- 5. Special rule for preliminary expenditures. Preliminary expenditures (e.g., architectural costs, engineering costs, surveying costs, soil testing costs, costs of issuance and similar costs) not exceeding 20% of the issue price of the bonds may be reimbursed without regard to the official intent requirement and the timing requirements. Preliminary expenditures do not include land acquisition, site preparation, and similar costs related to commencement of construction.
- 6. Eligible project costs – In general, under the Internal Revenue Service’s regulations, only “capitalizable” expenditures are eligible for reimbursement from the proceeds of tax-exempt bonds.

Table 1 below illustrates some general categorizations of eligible versus ineligible project costs.



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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Construction and Design Costs - General	The cost of constructing property must be capitalized. This includes certain ancillary costs which are directly related to the construction of the property, such as: amounts expended for architectural services, design costs, accounting fees related to the construction, direct and indirect compensation costs of employees whose services are used in the construction, construction supervision fees, and overhead directly attributable to the construction.	Yes
Compensation - General	As a general rule, compensation to employees (including fringe benefits) is an operating expense rather than a capital cost. Unless the employee's duties are clearly associated with a capital project, compensation may not be capitalized .	No
Compensation to outside contractors, architects, engineers, etc.	Such costs paid to third parties are treated as a cost of the capital asset and are capitalized.	Yes
Compensation to Employees exclusively involved with capital projects	Compensation (including the cost of fringe benefits) paid to employees (e.g., engineers, architects, project managers, etc.) who are directly involved in the construction and design of the project are treated as a cost of the capital asset and are capitalized.	Yes



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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Compensation of management employees who spend a portion of their time providing support services for capital projects	Certain employees (administrative staff, supervisors, attorneys, accountants, finance specialists, etc.) spend time on multiple assignments, including capital projects. Such employees are generally required to keep track of the time spent with respect to each assignment regardless of whether the project is financed by bonds or other funding sources. To the extent that such employees have clear documentation of the time spent on each assignment, compensation (including the cost of fringe benefits) paid to such employees which is attributable to work performed with respect to capital projects may be capitalized.	Yes
Indirect Overhead and Benefits (OMB A-87)	Indirect costs that are allocated as overhead (including cost of fringe benefits) is not eligible .	No
Rent - General	As a general rule, rent for office space is an operating expense rather than a capital cost. Unless the office space is specifically obtained to house only employees whose duties are clearly associated with a specific capital project, rent should not be capitalized . Any allocation of office space rent to capital costs and operating costs would, especially if such allocation has never been required for other business purposes, also be risky. Even if the space is specifically and exclusively associated with a capital project, if the rental is for a very short period of time, (e.g., the rental of a room for a single meeting), such rent should not be capitalized.	No
Longer-term Rent – space leased for a specific capital project	The rental cost of office space leased specifically for a particular capital project, and which will be rented for a substantial period of time (e.g., for the duration of the construction of the project) may be capitalized.	Yes



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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Purchased Office Equipment	The cost of office equipment with a <u>useful life of more than one year</u> (e.g., computers, copiers, etc.) is capitalizable from a federal tax perspective. To the extent such equipment is related to a specific tax-exempt eligible capital project , these costs may be eligible for reimbursement from tax-exempt proceeds.	Yes
Office Supplies	The cost of office supplies (e.g., stationery, paper, pens and pencils, staples, etc.) is not capitalizable .	No
Training, Professional Development, Licensing	Such costs are not capitalizable even though they may have some future benefit. These costs must be capitalized only in the unusual circumstance where the training is intended primarily to obtain future benefits significantly beyond those traditionally associated with training provided in the ordinary course of the employer's trade or business (e.g., the costs of training employees to operate a new facility are akin to start-up costs of a new business).	No
Automobiles	The cost of an automobile with a useful life of more than one year is capitalizable from a federal tax perspective. To the extent such equipment is related to a specific tax—exempt eligible capital project, these costs may be eligible for reimbursement from tax-exempt proceeds.	Yes
Meals and Refreshments	Such costs are not capitalizable , even if they are associated directly with a meeting relating to a capital asset.	No



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TABLE 1 General Guidelines for Eligible and Non-Eligible Expenditures of Tax-Exempt Bonds		
Type of Expense	General Guideline	Tax-Exempt Bonds Eligible?
Travel Costs	Travel costs (fuel, mileage, meals, lodging...etc.) are eligible only for travel <u>directly</u> related to a specific tax-exempt eligible capital project.	Yes
Repair and Maintenance	As a general rule, repair and maintenance for buildings, equipment and parts replacement is an operating expense and is not eligible for reimbursement from tax-exempt bond proceeds.	No



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Attachment C – Master Swap Policy

The Board may approve a Master Swap Resolution to authorize Valley Water to enter into swap transactions from time to time to better manage assets and liabilities and take advantage of market conditions to lower overall costs and reduce interest rate risk.

The Master Resolution would authorize the execution of swaps related agreements, provides for security and payment provisions, and sets forth certain other provisions related to swap agreements between Valley Water and qualified swap-counterparties. In the event of a conflict between the terms of the Master Resolution and the terms of the Master Swap Policy, the terms and conditions of the Master Resolution shall control.

1. Purpose

The incurring or carrying of obligations and management of investments Valley Water involves a variety of interest rate payments and other risks that a variety of financial instruments are available to offset, hedge, or reduce. It is the policy of Valley Water to utilize such financial instruments to better manage its assets and liabilities. Valley Water may execute interest rate swaps if the transaction can be expected to result in the following:

- Reduce exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest rate risk derived from Valley Water's overall asset / liability balance.
- Result in a lower net cost of borrowing with respect to Valley Water's debt or achieve a higher net rate of return on investments made in connection with, or incidental to the issuance, incurring, or carrying of Valley Water's obligations or other Valley Water investments.
- Manage variable interest rate exposure consistent with prudent debt practices and guidelines approved by the Board.

Valley Water shall not enter into interest rate swaps for speculative purposes.

Valley Water shall not enter into any swap or hedging transaction that is speculative or creates extraordinary leverage or risk with respect to the SCW Program and the Water Utility Enterprise, without the prior written consent of the United States Environmental Agency/Water Infrastructure Finance and Innovation Act (WIFIA) Lender, so long as Valley Water and/or the PFFC have outstanding WIFIA loans.

2. Form of Swap Agreements

Each interest rate swap executed by Valley Water shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including any schedules and confirmations that will be included in Valley Water Resolution for the swap. The swap agreements between Valley Water and each qualified swap



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counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions, and provisions as the Treasury and Debt Officer, in consultation with the District Counsel, deems necessary or desirable.

3. *Transaction Approval*

The approval guidelines for each authorized swap transaction shall be as set forth in the Master Resolution and in this Section 4. Valley Water Board must approve any swap transaction.

4. *Qualified Swap Counterparties*

Valley Water may enter into interest rate swap transactions only with qualified swap counterparties. Qualified swap counterparties are identified in Valley Water's Board approved investment banking team. The composition of the approved swap counterparties will change from time to time as changes are made to Valley Water's investment banking team. Qualified swap counterparties must be rated at least "A1" or "A+". In addition, the counterparty must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market. Each counterparty shall have minimum capitalization of at least \$150 million.

Valley Water may negotiate or competitively bid an interest rate swap transaction based on a review of the market impact to Valley Water of such competitive bid.

5. *Termination Provisions*

All swap transactions shall contain provisions granting Valley Water the right to optionally terminate a swap agreement at any time over the term of the agreement. In general, exercising the right to optionally terminate an agreement produces a benefit to Valley Water, either through receipt of a payment from a termination, or if a termination payment is made by Valley Water, in conjunction with a conversion to a more beneficial (desirable) debt obligation of Valley Water as determined by Valley Water. The Treasury and Debt Officer or the Ad Hoc Committee (comprised of: Chief Operating Officer-Administration, Chief Financial Officer, Treasury and Debt Officer, Accounting Unit Manager, and District Counsel's Office) as appropriate, in consultation with the Bond Counsel, shall determine if it is financially advantageous for Valley Water to terminate a swap agreement.

Mandatory Termination: A termination payment to or from Valley Water may be required in the event of termination of a swap agreement due to a default or a decrease in credit rating of either Valley Water or the counterparty. *It is the intent of Valley Water not to make a termination payment to a counterparty that does not meet its contractual obligations. Prior to making any such termination payment, the Treasury and Debt Officer shall evaluate whether it is financially advantageous for Valley Water to obtain a replacement counterparty to avoid making such termination payment.*



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In the event of default by a counterparty whereby Valley Water would be required to make a termination payment, Valley Water will proceed as follows:

- In order to mitigate the financial impact of making such payment at the time such payment is due; Valley Water will seek to replace the terms of the terminated transaction with a replacement counterparty. The new or replacement counterparty will make an upfront payment to Valley Water in an amount that would offset the payment obligation of Valley Water to the original counterparty.
- If a satisfactory agreement with a replacement counterparty is not reached, Valley Water will be required to make a swap termination payment to the original defaulting counterparty. Funds for such payment shall be made from available monies. The Debt/Treasury Officer shall report any such termination payments to the Board at the next Board meeting.

6. *Term and Notional Amount of Swap Agreement*

Valley Water shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. The slope of the swap curve, the marginal change in swap rates from year to year along the swap curve, and the impact that the term of the swap has on the overall exposure of Valley Water shall be considered in determining the appropriate term of any swap agreement. In connection with the issuance or carrying of bonds, the term of a swap agreement between Valley Water and a qualified swap counterparty shall not extend beyond the final maturity date of existing debt of Valley Water, or in the case of a refunding transaction, beyond the final maturity date of the refunding bonds. At no time shall the total notional amount of all swaps exceed the total amount of outstanding water revenue bonds.

7. *Swap Counterparty Exposure Limits*

In order to diversify Valley Water's counterparty risk, and to limit Valley Water's credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing swap transaction. The risk measure will be calculated based upon the mark-to-market sensitivity of each transaction to an assumed shift in interest rates. Assuming a 25-basis point movement in the swap rate, the maximum net exposure (termination payment) per counterparty shall not exceed \$5 million.

The maximum net exposure limitations establish guidelines with respect to whether Valley Water should enter into an additional swap agreement with an existing counterparty. For example, assume Valley Water executed a 30-year \$100 million notional amount swap. If the yield curve moved 25 basis points, Valley Water would likely have market exposure to that swap counterparty (i.e., in order to terminate the swap Valley Water would have to make a payment of possibly \$3.0 million). If such event occurred, the Treasury and Debt Officer would evaluate whether it is prudent and advisable to enter into additional swap transactions with such counterparties in order to mitigate the exposure to such counterparty.



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The calculation of net interest rate sensitivity per counterparty will take into consideration multiple transactions, some of which may offset market interest rate risk thereby reducing overall exposure to Valley Water. In addition, additional exposure provisions are as follows:

- The sum total notional amount per swap counterparty may not exceed 25 percent of Valley Water's total revenue bond indebtedness.
- The appropriate collateral amount will be determined on a case by case basis and approved by the Treasury and Debt Officer in consultation with the District Counsel.

If the sensitivity limit is exceeded by a counterparty, Valley Water shall conduct a review of the exposure sensitivity limit calculation of the counterparty. The Treasury and Debt Officer shall evaluate appropriate strategies in consultation with the Office of the District Counsel to mitigate this exposure.

8. *Collateral Requirements*

As part of any swap agreement, Valley Water shall require collateralization or other credit enhancement to secure any or all swap payment obligations. As appropriate, the Treasury and Debt Officer, in consultation with the District Counsel may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

- Each counterparty to Valley Water may be required to post collateral if the credit rating of the counterparty or parent falls below the "A1" or "A+" minimum rating. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by each counterparty in accordance with the provisions contained in the collateral support agreement to each swap agreement with Valley Water.
- Collateral shall consist of cash, U.S. Treasury securities and U.S. Agency securities.
- Collateral shall be deposited with a third-party trustee, or as mutually agreed upon between Valley Water and each counterparty.
- A list of acceptable securities that may be posted as collateral and the valuation of such collateral will be determined and mutually agreed upon during negotiation of the swap agreement with each swap counterparty.
- The market value of the collateral shall be determined on at least a monthly basis.
- Valley Water will determine reasonable threshold limits for the initial deposit and for increments of collateral posting thereafter.
- The Treasury and Debt Officer shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to Valley Water.



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9. *Reporting Requirements*

A written report providing the status of all interest rate swap agreements will be provided to the Board of Directors at least on a quarterly basis and shall include the following information:

- Highlights of all material changes to swap agreements or new swap agreements entered into by Valley Water since the last report.
- Market value of each of Valley Water's interest rate swap agreements.
- The net impact to Valley Water of a 25-basis point movement (up or down) with the appropriate swap index or curve.
- For each counterparty, Valley Water shall provide the total notional amount position, the average life of each swap agreement, the available capacity to enter into a swap transaction, and the remaining term of each swap agreement.
- The credit rating of each swap counterparty and credit enhancer insuring swap payments, if any.
- Actual collateral posting by swap counterparty, if any, per swap agreement and in total by swap counterparty.
- A summary of each swap agreement, including but not limited to the type of swap, the rates paid by Valley Water and received by Valley Water, and other terms.
- Information concerning any default by a swap counterparty to Valley Water, and the results of the default, including but not limited to the financial impact to Valley Water, if any.
- A summary of any planned swap transactions and the impact of such swap transactions on Valley Water.
- A summary of any swap agreements that were terminated.



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Attachment D – Resolution 17-11 Authorizing Debt Management Policy

BOARD OF DIRECTORS SANTA CLARA VALLEY WATER DISTRICT

RESOLUTION NO. 17-11

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$65,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2017A, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH

WHEREAS, the Santa Clara Valley Water District (the "District"), is a flood control and water district duly organized and existing under and pursuant to the Constitution and laws of the State of California;

WHEREAS, the District has previously financed the acquisition of certain capital improvements to the water utility system equipment and facilities of the District by causing the execution and delivery of the Revenue Certificates of Participation (Water Utility System Improvement Projects) Series 2007A (the "2007A Certificates");

WHEREAS, the District has determined that it would be in the best interests of the District and citizens of the community to authorize refunding bonds in one or more series (the "Refunding Bonds") to refund all or a portion of the 2007A Certificates;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of the Santa Clara Valley Water District does hereby find, determine, declare, and resolve as follows:

Section 1. Authorization of Refunding Bonds. This Board hereby authorizes the issuance, sale and delivery of one or more series of Refunding Bonds in an aggregate principal amount not to exceed \$65,000,000 in accordance with the terms and provisions of the Indenture of Trust referred to in Section 2 below; provided however that in no event shall the true interest cost of the Refunding Bonds exceed 5.00% per annum. The purposes for which the proceeds of the sale of the Refunding Bonds shall be expended are to refund all or a portion of the 2007A Certificates, and to pay the costs of the sale and delivery of the Refunding Bonds.

The Chief Operating Officer – Administration, the Chief Financial Officer and the Treasury/Debt Officer are hereby authorized and directed to award the sale of the Refunding Bonds to the bidder with the lowest true interest cost. The Chief Operating Officer – Administration, the Chief Financial Officer and the Treasury/Debt Officer may accept or reject all or any portion of bids received on the Refunding Bonds in order to accomplish the goals of the District as set forth herein.

Section 2. Indenture. The Indenture of Trust with respect to the Refunding Bonds, in substantially the form on file with the District, and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. The Chief Executive Officer, the Chief Operating Officer – Administration, the Chief Financial Officer



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RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$65,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2017A, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH

Resolution No. 17-11

(or any acting or interim of such positions) and the Clerk of the Board or the designee thereof (each an "Authorized Officer" and together the "Authorized Officers"), are hereby each individually authorized and directed to execute and deliver the Indenture of Trust with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

Section 3. Notice of Intention to Sell Securities. The Authorized Officers, in cooperation with Bond Counsel and Public Resources Advisory Group, the District's Municipal Advisor, are each hereby authorized and directed, pursuant to Section 53692 of the California Government Code, to cause to be published the Notice of Intention to Sell Securities once at least five (5) days prior to the date set for receipt of bids on the Refunding Bonds, in a financial publication generally circulated throughout the State of California or reasonably expected to be disseminated among prospective bidders for the securities. The Authorized Officers, in cooperation with the District's Municipal Advisor, shall cause the Official Notice of Sale (the "Notice of Sale"), in substantially the form on file with the District, which form is hereby approved, to be circulated among prospective bidders.

Section 4. Preliminary Official Statement and Official Statement. The preparation and distribution of the Preliminary Official Statement relating to the Refunding Bonds in substantially the form on file with the District, is hereby approved. Each Authorized Officer is individually authorized to sign a certificate pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 relating to the Preliminary Official Statement and each Authorized Officer is individually authorized and directed to execute, approve and deliver the Official Statement in the form of the Preliminary Official Statement which, upon execution as authorized below, are made a part hereof as though set forth in full herein, with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval. The underwriter for the Refunding Bonds is hereby authorized to distribute copies of said Preliminary Official Statement to persons who may be interested in the initial purchase of the Refunding Bonds and are directed to deliver copies of any final Official Statement to all actual initial purchasers of the Refunding Bonds.

Section 5. Continuing Disclosure Agreement. The Continuing Disclosure Agreement relating to the Refunding Bonds in substantially the form on file with the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver the Continuing Disclosure Agreement with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.



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RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$65,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2017A, APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH

Resolution No. 17-11

Section 6. Escrow Agreement. The Escrow Agreement (2007A Certificates) relating to the refunded 2007A Certificates (the "Escrow Agreement"), in substantially the form on file with the District and, upon execution as authorized below, made a part hereof as though set forth in full herein, is hereby approved. Each Authorized Officer is individually authorized and directed to execute and deliver the Escrow Agreement with such changes, insertions and omissions as may be approved by such Authorized Officer executing the same, said execution being conclusive evidence of such approval.

Section 7. Trustee. U.S. Bank National Association, San Francisco, California is hereby appointed to act as trustee under the Indenture of Trust with respect to the Refunding Bonds.

Section 8. Debt Management Policy. The Debt Management Policy of the District (the "Debt Management Policy") is on file with the District. In accordance with California Government Code Section 8855(i), the Board hereby delegates and authorizes the Authorized Officers to approve any amendments to the Debt Management Policy from time to time as such Authorized Officers deem necessary.

Section 9. Other Actions. The Authorized Officers and such other officers and staff of the District are authorized and directed, acting singly, to do any and all things and to execute and deliver any and all documents which such officers may deem necessary or advisable in order to consummate the sale and delivery of the Refunding Bonds, and the delivery of the Indenture of Trust, the Continuing Disclosure Agreement, the Preliminary Official Statement and the Official Statement, the Escrow Agreement, and otherwise effectuate the purposes of this Resolution, and such actions in connection therewith previously taken by such officers and staff are hereby ratified and confirmed.

Section 10. Definitions. Unless otherwise defined herein, all terms used herein and not otherwise defined shall have the meanings given to such terms in the Indenture of Trust, unless the context otherwise clearly requires.

Section 11. Effect. This resolution shall take effect immediately.



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**RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY
WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED
\$65,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2017A,
APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND
AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH**

Resolution No. 17-11

PASSED and ADOPTED by the Board of Directors of Santa Clara Valley Water District
by the following vote on the 14th day of March, 2017.

AYES: Directors: R. Santos, T. Estremera, N. Hsueh, B. Keegan,
G. Kremen, L. LeZotte, J. Varela

NOES: Directors: None

ABSENT: Directors: None

ABSTAIN: Directors: None

SANTA CLARA VALLEY WATER DISTRICT


JOHN L. VARELA
Chair/Board of Directors

ATTEST: MICHELE L. KING, CMC


Clerk/Board of Directors



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**RESOLUTION OF THE BOARD OF DIRECTORS OF THE SANTA CLARA VALLEY
WATER DISTRICT AUTHORIZING THE ISSUANCE OF NOT TO EXCEED
\$65,000,000 WATER SYSTEM REFUNDING REVENUE BONDS, SERIES 2017A,
APPROVING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS AND
AUTHORIZING CERTAIN ACTS IN CONNECTION THEREWITH**

Resolution No. 17- 11



I hereby certify that the foregoing is a full, true
and correct copy of the original thereof on file
in my office.

DATED: March 14, 2017

MICHELE L. KING
Clerk, Board of Directors
Santa Clara Valley Water District