



Statement of Debt Management and Disclosure Policy



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SAN DIEGO COUNTY WATER AUTHORITY

Statement of Debt Management and Disclosure Policy

Section I. Debt Management

A. Purpose and Overview

California Government Code Section 8855 requires local governmental issuers of debt to establish and maintain a debt policy incorporating certain provisions. In addition, in its publication entitled *Best Practice Debt Management Policy*, the Government Finance Officers Association (**GFOA**) states that “Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. A debt management policy should improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning.”¹ GFOA recommends as a best management practice that state and local governments adopt comprehensive written debt management policies and that such policies be updated periodically.

The San Diego County Water Authority (**Water Authority**) has adopted this Statement of Debt Management and Disclosure Policy (**Debt and Disclosure Policy**) as set forth herein in order to provide a set of comprehensive guidelines for the issuance and management of the Water Authority’s debt portfolio. The Debt and Disclosure Policy provide the tools for the Water Authority to manage its debt portfolio to minimize its financing costs, evaluate the risks and benefits of various debt instruments, ensure it maintains robust and timely disclosures of its activities to the financial markets, and provide for appropriate participation in the municipal securities market by the Water Authority.

Certain capitalized terms used in this Debt and Disclosure Policy and not defined in the body of the document have the meanings set forth in the Glossary attached at the end of this Debt and Disclosure Policy.

B. Roles and Responsibilities

Director of Finance – The primary responsibility for debt management rests with the Water Authority’s Director of Finance (**Director of Finance**). The Director of Finance, in accordance with this Debt and Disclosure Policy, shall:

- Facilitate the issuance of Securities and other debt obligations to finance or refinance capital projects and equipment, balancing the lowest costs of funds, useful lives of the capital projects, risk and a diversified debt portfolio;
- Determine the available debt capacity of the Water Authority;



- Recommend to the Water Authority’s Board of Directors (**Board**) the method and manner of sale of Securities and other debt obligations;
- Monitor opportunities to refund debt or refinance Securities and other debt obligations and make recommendations to the Board for such refunding as appropriate to reduce costs or to achieve other objectives consistent with this Debt and Disclosure Policy;
- Comply with all applicable IRS, MSRB, and SEC rules and regulations governing the issuance of debt;
- Maintain a current database with all outstanding Securities and other debt obligations;
- Provide for the timely payment of principal and interest on all Securities and other debt obligations;
- Comply with all terms and conditions, and disclosure obligations required by applicable securities law and the legal documents governing the Securities and other debt obligations;
- Submit to the Board all recommendations to issue debt in accordance with the County Water Authority Act and Resolution No. 89-21 (the **General Resolution**);
- Distribute to appropriate repositories information regarding the Water Authority’s financial condition and affairs at such times and in the form required by law, regulation and general practice;
- Provide for the frequent distribution of pertinent information to the rating agencies selected by the Director of Finance;
- Provide for the ongoing management of an Investor Relations Program; ~~and~~
- Organize disclosure training and other trainings for the Board and management relating to the financial management of the Water Authority; and
- Apply and promote prudent fiscal practices.

C. *Purpose for Borrowing*

The Water Authority shall issue Securities and enter into other debt obligations for the purpose of financing the cost of design, acquisition, and/or construction of water system improvements, in furtherance of the Water Authority’s Capital Improvement Program (**CIP**). Additionally, the Water Authority can fund from debt proceeds such other costs as needed including, but not limited, costs of issuance reserve funds, capitalized interest or other related costs as determined by the Director of Finance. In the issuance and management of Securities and other debt obligations, the Water Authority must comply with all legal constraints and conditions imposed by federal, State and local law. Appendix A attached hereto highlights the key governing documents and certain debt limitations of the Water Authority. The County Water Authority Act, California Statutes 1943, Chapter 45, as amended., can be found on the Water Authority’s website.²

² See https://www.sdcwa.org/sites/default/files/files/CWA_Act.pdf



D. Ethical Standards Governing Conduct

Members of the Water Authority, the Board and its consultants, service providers, and underwriters shall adhere to standards of conduct as stipulated by the San Diego County Water Authority Local Conflict of Interest Code or the California Political Reform Act and other applicable laws governing standards of conduct, as applicable. All financing participants shall maintain the highest standards of professional conduct at all times and shall make cooperation with the Water Authority staff their highest priority. In particular, Municipal Advisors (as defined below) and Underwriter shall adhere to applicable SEC and MSRB rules, including MSRB Rule G-37; and the Director of Finance will ensure receipt of and review any G-17 notices received from the Water Authority's broker-dealers, and determine whether further investigation is needed based on such notice received, and consult with legal counsel as needed.

Section II. Integration of Capital Planning and Debt Activities

A. Policy Goals Guiding Capital Improvement Program Spending

The Water Authority shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition including its credit ratings. As discussed in the Water Authority's Long-Range Financing Plan (**LRFP**), the Water Authority's overarching financial management objectives are, maximize cost efficiency (minimize costs/rates), provide predictable (smooth) rates and charges to member agencies and maintain intergenerational equity for system users over time (see a copy of the full LRFP on the Water Authority's website. These management objectives will be factored into decisions relating to the type and timing of Securities issuances and in entering into other debt obligations. To that end, the Director of Finance shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows;
- Historic and projected capital expenditures;
- Historic and projected operating costs;
- Historic and projected fund balances, including the Operating Fund, the Rate Stabilization Fund (**RSF**), Pay-As-You-Go Fund (**PAYGO**), Debt Proceeds Fund, Stored Water Fund and Debt Service Reserve Fund
- Historic and projected debt service coverage;

³ See <https://www.sdcwa.org/wp-content/uploads/2021/10/LRFP2021Adopted.pdf>



- The most efficient mix of funding sources (long-term debt; short-term debt, and cash);
- Projected revenue requirements; and
- Projected rates and charges.

B. Debt Service Coverage Policies

1. **Debt Service Coverage** - The Debt Service Coverage Ratio (**DSCR**) measures the availability of current financial resources to pay for debt service. It is the ratio of annual revenues (net of operating expenses) to total annual debt service. For example, a DSCR of 1.00 means that after paying all operating expenses, an issuer only has exactly enough funds to pay its debt service obligations.

The DSCR is one of the primary metrics used by credit rating agencies and investors to assess the creditworthiness of an issuer. In this way it is similar to the income to debt ratio used in qualifying for home mortgage. All other things being equal, a higher DSCR means less borrowing or higher revenues, better credit ratings, and a lower cost of debt.

Conversely, a lower DSCR means more borrowing, lower credit ratings, and more expensive debt.

Generally, the Water Authority's General Resolution is the document governing outstanding debt issues. In this document, the Water Authority contractually commits to set rates so as to maintain a minimum DSCR of 1.20 times on senior lien debt. The Water Authority also covenants to maintain net revenues of at least 1.00 times on all outstanding obligations. A copy of the General Resolution can be found on the Water Authority's website.⁴

2. **Board Adopted Debt Service Coverage Ratio Target**– Highly-rated issuers generally have DSCRs that exceed the covenanted levels. In August 2006, along with the RSF funding policies, the Board adopted a DSCR policy target of 1.50 times and has continued to memorialize same in subsequent Board actions. This DSCR target provided levels more appropriate to preserve the long-term financial integrity of an 'AA' and higher rated agency in the midst of a large capital program. In addition to this 1.50 times policy target, the Board also adopted another policy target of 1.00 times on senior lien debt net of capacity charge revenues.

C. Short-Term Debt Policy

The Commercial Paper (CP) Program serves as cash management tools that is primarily used to provide interim funding for capital expenditures by issuing notes (Notes) that will ultimately be funded from another source such as long-term bonds. The CP Notes will be used to finance only capital expenditures. A CP program can be leveraged to fund various capital expenditures. However, the total outstanding Notes at any given time will not exceed the established not-to-exceed amount of the CP program. CP allows for borrowing



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smaller amounts as needed based on short-term rates in place of issuing large amounts in the form of long-term bonds at long-term interest rates. The Notes will typically be structured as revenue obligations for the Water Authority, similar to the long-term Revenue Bonds. Notes have a maturity of up to 270 days and thus bear short-term interest rates. Upon maturity, the Notes can be rolled over (or remarketed) for additional intervals until the Notes are refinanced with a long-term financing or cash repayment option.

Depending on the term of a Note and the timing of the long-term financings that will ultimately be used to retire it, Notes may need to be remarketed more than once before they are replaced with long-term financing. This means that Notes are subject to rollover remarketing risk – the risk that the Note can be reissued timely to a buyer at a reasonable rate of interest. Additional risk that will need to be considered is that interest rates on long-term financings can change between the time Notes are originally issued and the time at which long-term financings will retire the Notes. If interest rates rise, the total debt service paid using commercial paper and the long-term financings to take out the Notes will increase, although near term debt service cost differential may still be achieved. The Finance Department evaluates these risks in light of capital market conditions before proceeding with any issuance of Notes. Additional consideration is given to the timing and impact of the CP Notes' take-out financing. Existing CP programs take into consideration market conditions and other funding or refunding needs requiring long-term issuances. For these or other reasons, long-term take-out financing may occur before the maximum amount of CP Notes has been issued. Establishing a new CP program or increasing the maximum principal amount of an existing program requires Board of Directors approval. The ordinance approving either will include, among other parameters, both the maximum principal amount of Notes that may be outstanding at any time and the not-to-exceed cap on the interest rate to be paid on the Notes. In the course of seeking Board of Directors approval of the program, the Chief Financial Officer and/or Finance Director will provide the Board of Directors with their rationale for the recommendation, an overview of current capital market conditions (including potential risk considerations), and a comprehensive plan for using the Notes to finance specific capital improvements. The Board of Directors may periodically request information update presentations at either Committee or Board of Directors meetings.



Section III. Procurement and Evaluation of Professional Services

The Water Authority shall procure professional services as required to execute financing transactions and to advise on non-transaction related work. Professional services include, without limitation, Consultants (Municipal Advisor, Bond Counsel, Disclosure Counsel and Tax Counsel); Service Providers (Trustee, Paying Agent—, Dissemination Agent, Arbitrage Consultant, Escrow Verification Agent, Bidding Agent for escrow investments, Printer, and Letter of Credit Providers); and an Underwriting Team (Senior Manager, Co-Manager, and Selling Group).

A. Selection Process

The selection of financial and legal professionals to assist the Water Authority in carrying out financing programs shall be made through a selection process consistent with the Water Authority's procurement policies and procedures. All consultants, service providers and underwriting team members shall provide the Water Authority with objective advice and analysis, shall, except as instructed by the Water Authority in accordance with applicable securities laws, maintain the confidentiality of Water Authority financial plans, and shall be free from any conflict of interest pursuant to applicable law. The Water Authority's Local Conflict of Interest Code, and procurement policies and procedures, can be found in the Water Authority's Standard Professional Service Contract, a copy of which is available on the Water Authority's website,⁵ and in the Water Authority's Administrative Code (see chapters 1.04 and 4.04 therein) a copy of which is available on the Water Authority's website.⁶

B. Appointment of Municipal Advisor

The Water Authority will select a Municipal Advisor or advisors to assist in the issuance and administration of debt (**Municipal Advisor**) through the Request for Proposals (**RFP**) process.

The criteria to be used in evaluating and selecting a Municipal Advisor should include:

- Experience in providing formal financial advisory services to major utility issuers;
- Experience with diverse financial structuring requirements of major utility issuers;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

A Municipal Advisor under contract with the Water Authority shall not purchase or sell any Water Authority Securities and other debt obligations. The Director of Finance shall submit to the Board a recommendation for the appointment of a Municipal Advisor. The recommendation

⁵ See <https://www.sdcwa.org/wp-content/uploads/2020/11/ProfessionalServiceContract.pdf>

⁶ See <https://www.sdcwa.org/about-us/admin-code/>



shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Director of Finance shall monitor the services rendered by the Municipal Advisor.

Assistance to be provided by a Municipal Advisor may, as required by the Director of Finance, include, but not be limited to, the following services:

1. Ongoing Services/Long-Term Forecasting

(i) Review and update as needed the capital finance model and the LRFP; provide analysis of funding methods and options including analysis of the structure of the LRFP; discussion of issues or difficulties which may be encountered in implementing the LRFP and the strategies to address such issues; prepare and deliver presentations regarding various financial issues to Water Authority staff and the Board as requested.

(ii) Assist the Water Authority in interfacing with rating agencies with the objective of developing a strategy and plan to maintain the highest level of credit ratings possible for the Water Authority's senior lien and subordinate lien ratings in accordance with the Water Authority's overall policy objectives.

(iii) Provide timely information, judgments, and forecasts regarding general economic and capital market conditions.

(iv) Assist the Water Authority in updating its financial strategies and policies when requested. This includes analyzing short, intermediate and long-term financing options.

(v) Advise the Water Authority on the timing, method and structure of its sale of Securities and entering into other debt obligations.

(vi) Update, modify, evaluate, and improve as necessary the revenue program and rate model which is used to help determine the Water Authority's ability to meet funding requirements for the CIP.

(vii) Be available at reasonable times for consultation to render advice regarding the financial aspects of the Water Authority's program as may be requested by the Board, the General Manager, or the Director of Finance.

(viii) Serve as an IRMA to the Water Authority in accordance with the SEC's Municipal Advisor Rule.

(ix) Be available to attend meetings related to MWD, the LRFP and other related rate issues.



2. Debt Issuance

(i) Prepare financing schedule, monitor progress of financing team participants, facilitate and coordinate completion of tasks and responsibilities in accordance with schedule and revise schedule as necessary.

(ii) Assist in and coordinate the preparation of legal and disclosure documents related to Securities issuance and entering into other debt obligations.

(iii) Develop a rating agency strategy, prepare rating agency presentation material, schedule meetings with rating agencies, organize and coordinate Board and staff rehearsals and presentations, and coordinate itinerary for rating agency visits as required.

(iv) Prepare and distribute RFP's for the Underwriting Team, the Printers, and other team participants as directed by the Water Authority. Assist in evaluation of proposals, assist in conducting interviews as necessary, and provide recommendations as to firms selected.

(v) Develop and take a primary responsibility for quantitative analysis of structuring alternatives for debt issues including sizing, structure, and term of issue; provide computer modeling and comparison of alternatives analysis; make recommendations and provide rationale for preferred alternatives and ensure that selected alternative provides the best solution as part of the LRFP.

(vi) Assist and coordinate discussions and prepare presentation materials for identified key institutional investors. Coordinate itinerary as necessary for visits to institutional investors or meeting sites.

(vii) Analyze and participate in decision as to timing of sale and consult as to advisability or necessity for rescheduling sale depending on market conditions.

(viii) Prepare analytical discussion of market conditions and projected pricing results prior to sale. Provide independent pre-pricing analysis to Water Authority prior to sale including market activity, projected results, market supply and demand characteristics, and comparable sale analysis.

(ix) Coordinate and monitor marketing programs initiated by the Underwriting Team to develop pre-sale market interest. Prepare and coordinate placement of notices and advertisements in periodical publications (e.g. the Bond Buyer) to stimulate market interest.

(x) Assist in development of and recommendation with respect to pre-sale interest rate scale and structure for pre-marketing purposes. Provide



recommendation with respect to underwriter retention and syndicate sales prior to sale.

(xi) Analyze market conditions with respect to underwriters' compensation; provide comparable transaction comparisons and recommendation with respect to underwriting spread and components thereof. Negotiate with underwriters' representatives with respect to underwriters' compensation, including liquidity agreement terms and conditions.

(xii) Participate in pricing process, monitor order flow to all managers, analyze volume and type of orders, and provide recommendation as to acceptance of offer to underwrite at conclusion of pricing period.

(xiii) Provide pricing analysis and comparisons following sale; document pricing results and provide written report to Water Authority with respect to final pricing and underwriter compensation level; and deliver quantitative schedules showing results of final pricing.

(xiv) Provide escrow bidding agent services and/or subscribe for SLGS if requested by the Water Authority.

(xv) Assist and coordinate administrative matters related to transaction closing, including coordination and distribution of final Official Statements, and participate in closing procedures.

3. Miscellaneous

(i) Upon request, assist in reviewing and analyzing legislation that may have a financial impact on the Water Authority.

(ii) Assist, when requested, by conducting surveys of the financial activities of other major operating utilities.

(iii) Attend Board meetings and make presentations to the Board, its committees and Water Authority staff when requested.

(iv) Prepare graphs, charts, etc. for staff presentations, as needed.

(v) Upon request, assist in reviewing and analyzing MWD and State Water issues as they relate to the Water Authority and provide advice, as needed.

C. Appointment of Legal Counsel

The General Counsel of the Water Authority shall appoint the legal counsel to represent the Water Authority in connection with the issuance of any Securities, the entering into of any other



debt obligations and as otherwise necessary to represent the interests of the Water Authority in non-transactional matters, including the appointment of Bond Counsel, Disclosure Counsel and Tax Counsel. The appointments shall be made from among nationally recognized law firms with extensive experience in public finance and tax issues.

All Securities issued by the Water Authority and other debt obligations entered into by the Water Authority shall include a written opinion by legal counsel affirming that the Water Authority is authorized to issue the proposed Securities or enter into the other debt obligations, that the Water Authority has met all federal, state, and local legal requirements necessary for issuance and a determination of the proposed Securities' federal income tax status. This approving opinion and other documents relating to the issuance of Securities or entering into other debt obligations shall be prepared by a nationally recognized legal firm with extensive experience in public finance and tax issues.

For any negotiated sale of Securities or entering into other debt obligations in which legal counsel is required to represent the underwriter, the lead underwriter shall make the appointment. Unless otherwise justified, the appointment shall be made from among nationally recognized law firms with significant ownership or operations in California.

D. Appointment of Trustee and Paying Agent

The Director of Finance shall select a fiscal agent to provide for the payment of all Securities issued by the Water Authority or other debt obligations entered into by the Water Authority. The selection of a fiscal agent shall be based upon a competitive evaluation of proposals submitted in response to an RFP.

The Director of Finance shall submit to the Board a recommendation for the appointment of a fiscal agent. The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Director of Finance shall monitor the services rendered by the fiscal agent to ensure prompt and efficient service to bondholders.

E. Appointment of Printer

The Director of Finance shall select a Printer or electronic dissemination provider as required in conjunction with a proposed sale of bonds, for the purpose of printing and mailing Preliminary Official Statements and final Official Statements to potential investors and members of the finance team. The selection of a printer shall be based on a competitive evaluation of proposals.

F. Appointment of Letter of Credit or Liquidity Facility Provider

In order to comply with the requirements of the bond documents and to ensure the liquidity and marketability of the Water Authority's variable rate debt (including, but not limited to, variable rate bonds and a tax-exempt commercial paper program), the Director of Finance shall take such actions as necessary to procure a letter of credit or line of credit in support of such variable rate debt. The selection of a letter of credit/liquidity bank shall be based on a competitive evaluation



of proposals submitted in response to an RFP.

The Director of Finance shall submit to the Board a recommendation for the appointment of a Letter of Credit/Liquidity Facility provider. The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Director of Finance shall monitor the trading value and credit ratings of the provider to ensure that the Water Authority's variable rate debt is remarketed at the lowest possible cost, given the legal and policy considerations governing the selection of the bank.

G. Appointment of Remarketing Agents

The Director of Finance shall, in conjunction with selecting a letter of credit provider, solicit proposals from and select commercial paper remarketers/dealers.

H. Appointment of Verification Agent

In conjunction with the sale of refunding bonds, if required, the Director of Finance shall procure the services of a verification agent (**Verification Agent**). The purpose of the Verification Agent is to confirm that sufficient proceeds are invested in permitted federal securities and to ensure the timely repayment of principal and interest on the bonds being refunded. The Verification Agent must be a nationally recognized provider of verification services. The selection of a Verification Agent shall be based upon a competitive evaluation of proposals submitted in response to an RFP.

I. Appointment of Underwriters

To provide for the negotiated issuance of Securities, the Director of Finance shall maintain an Underwriter Pool (**Pool**). The appointment to the Water Authority's Pool shall be based upon a competitive evaluation of proposals submitted in response to a Request for Qualifications. The Director of Finance shall submit to the Board a recommendation for the appointment of underwriters to the Pool to serve on a rolling basis. The size and composition of the Pool shall be based upon the projected financing needs of the Water Authority. Criteria used in the appointment of qualified underwriters to the Pool shall include:

- Demonstrated ability serving on complex financial transactions;
- Demonstrated ability with major water issuer financings;
- Demonstrated ability to structure a debt issue efficiently and effectively;
- Demonstrated ability to sell Water Authority debt to institutional and retail investors;
- Demonstrated ability to put capital at risk;
- Quality and applicability of financing ideas;
- Experience and reputation of assigned personnel; and
- Indicative fees and expenses.

Prior to any negotiated transactions, an RFP will be issued to the Pool and a financing team



recommended to the Board for selection. The composition of the team will be dependent on the size of the sale and the need to achieve a broad distribution of Water Authority debt among both retail and institutional investors. The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action.

In connection with the approval of the underwriting team, the Board shall appoint a lead underwriter. The lead underwriter shall have demonstrated ability to manage a number of firms in a complex financial transaction.

J. Appointment of Other Service Providers

The Director of Finance will solicit proposals for the following services as needed:

- Continuing Disclosure Agent – Service provider that ensures disclosure documents are disseminated to regulators and investors in compliance with regulations and Disclosure Agreements.
- Arbitrage Consultant – Service provider that calculates the arbitrage accrued to transactions for the purpose of IRS filings.
- Open Market Securities Agent – Service provider that solicits prices for escrow fund investments and executes the purchase of selected investments.

Section IV. Transaction-Specific Policies

A. Method of Sale

1. **Competitive Bid Method** - The Director of Finance evaluates whether the Water Authority will in general sell Securities or enter into other debt obligations by competitive bid or determine that a negotiated debt would be more advantageous due to volatile market conditions, unique structure or call provisions, investor interest or such other factors that could impact the competitive bid as further described in Section 2. Such bid may take the form of hand-delivered or electronically transmitted offers to purchase the bonds. Any competitive sale of Securities or entering into other debt obligations will require approval of the Board. The Securities issued or other debt obligations entered into on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the Water Authority provided the bid conforms to the terms and conditions in the official notice of sale.
2. **Negotiated Bid Method** – When necessary, as determined by the Director of Finance, to minimize the costs and risks of Water Authority borrowing, the Director of Finance will submit to the Board a request to sell Securities or enter into other debt obligations on a negotiated basis. A negotiated bond issue will provide for the sale of Securities or entering into other



debt obligations by negotiating the terms and conditions of the sale, including yields, coupons and call provisions, credit facilities, underwriter or remarketing fees, and commissions. Examples of such sales include:

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

If Securities are sold or other obligations entered into on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, yields, interest rates, and call provisions, underwriting or remarketing fees, and commissions. The Water Authority, with the assistance of its Municipal Advisor, shall evaluate the terms offered by the Underwriting Team. Guidelines with respect to yields, coupon, call provisions, fees, and commissions shall be based on prevailing terms and conditions in the marketplace for comparable issuers.

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

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

- The bonds are allocated fairly among members of the Underwriting Team, consistent with the previously negotiated terms and conditions;
- The allocation process complies with all MSRB regulations governing order priorities and allocations;
- The lead underwriter shall submit to the Director of Finance a complete and timely



account of all orders, allocations, and underwriting activities with the investor names identified as appropriate.

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

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

B. Structural Elements

1. **Pledge of Revenues** – The Water Authority's pledge of revenues shall be determined for each debt issue depending upon the debt instrument:

- *Senior Obligations* are payable from Net Water Revenues (as defined in the General Resolution) on parity with all other Contracts and Bonds (as those terms are defined in the General Resolution).
- *Subordinate Obligations* are payable from Net Water Revenues, from the Subordinate Obligation Payment Fund, subject and subordinate to Bond Payments and Installment Payments.
- *Other Long Term Obligations* include the payments due pursuant to the Pipeline Installment Sale Agreement dated December 24, 2012, as amended, which are payable from Net Water Revenues, subject and subordinate to the Subordinate Obligations.
- *Certificates of Participation* of the Water Authority shall be repaid from net revenues, as defined in the General Resolution.
- *Revenue Bonds* of the Water Authority shall be repaid from net revenues, as defined in the General Resolution.

The Water Authority may also issue:

- *General Obligation Bonds* of the Water Authority shall be repaid from voter-approved property taxes on property within the jurisdiction of the Water Authority.
- *Assessment Bonds* of the Water Authority shall be repaid from levies or charges collected within an assessment district formed by the Water Authority pursuant to the Municipal Improvement Act of 1913.

2. **Maturity** – The Water Authority shall issue Securities or enter into other



debt obligations with an average life less than or equal to the average life of the assets being financed. The final maturity of the Security or other debt obligation 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.

3. **Maturity Structure** – The Water Authority’s long-term Securities or other debt obligation may include serial and term bonds. Other maturity structures may also be considered if they are consistent with the objectives of the Debt and Disclosure Policy.
4. **Coupon Structure** – Debt may include par, discount and premium coupon structures. Factors to be considered when determining the coupon structures for a specified maturity should include, but not be limited to, overall level of interest rates and current investor demand. For variable rate debt, the variable rate may be based on one of a number of commonly used interest rate indices and the index will be determined at the time of pricing.
5. **Debt Service Structure** – Debt service will be structured primarily on an approximate level (combined annual principal and interest) basis. Certain individual bond issues, such as refunding bonds, may have debt service that is not level. However, on an aggregate basis, debt service should be structured primarily on a level or declining basis.
6. **Redemption Features** – In order to preserve flexibility and refinancing opportunities, Water Authority debt will generally be issued with call provisions. The Water Authority may consider calls that are shorter than traditional and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the Water Authority will evaluate the efficiency of call provision alternatives and their fit within the Water Authority’s overall debt profile.
7. **Credit Enhancement** – The Water Authority shall competitively procure credit enhancement for a sale of bonds if the Director of Finance, in consultation with the Municipal Advisor and the underwriters, determines that it is cost effective to do so.
8. **Senior/Subordinate Lien** – The Water Authority shall utilize both a senior and a subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on water rates, and marketing considerations.
9. **Debt Service Reserve Funds** – The Water Authority shall provide for



debt service reserve funds to secure Water Authority debt when necessary to enhance the ratings or in response to investor demand if it is determined the reserve will lower the overall cost of the financing. The debt service reserve fund will be established pursuant to the legal documents governing the transaction.

Section V. Refunding Policies

The Water Authority shall strive to refinance debt to maximize savings and minimize the cost of funds as market opportunities arise. A present value analysis will be prepared that identifies the economic effects of any refunding to be proposed to the Board. Upon the advice of the Director of Finance, with the assistance of the Municipal Advisor and Bond Counsel, the Water Authority will consider undertaking refundings for other than economic purposes, such as to restructure debt, change the type of debt instruments being used, or to retire a bond issue and indenture in order to remove undesirable covenants.

The Water Authority may also consider other alternative refunding options to the extent they fall within the guidelines established in this Debt and Disclosure Policy, or utilize any taxable or tax-exempt advance refunding options that may be provided by any future changes to federal laws and regulations.

A. Savings Thresholds

Minimum savings thresholds have been established to help guide the economic analysis of refunding bonds. The minimum savings guidelines are applicable on a maturity-by-maturity basis and are expressed as a percentage of refunded bond par calculated by dividing the expected net present value savings generated by the proposed refunding by the par amount of the refunded bonds. Except as described above with respect to refundings undertaken for other than economic purposes, the Water Authority shall only refund bonds to generate debt service savings if the specified minimum savings set forth in the following matrix can be achieved.

To determine if a potential refunding candidate meets the applicable minimum savings threshold specified in the following matrix, the Water Authority shall:

Years to Call			
	0-1	2-7	8 +
0-2	1%	2%	2%



Years from	3-7	3%	3%	4%
	8-15	4%	4%	4%
	16 +	4%	5%	5%

Step 1. Identify which specific savings threshold applies to the potential refunding candidate by determining (a) how many years there are between the expected refunding date and the first call date and (b) how many years there are from the first call date to the final maturity of the refunding candidate, as shown in the examples below:

Expected Refunding Date	Refunding Candidate First Call Date	Refunding Candidate Final Maturity Date	Minimum Threshold Savings
12-1-2021	12-1-2024 (3 years to call date)	12-1-2035 (11 years call to maturity)	4%
12-1-2021	12-1-2023 (2 years to call date)	12-1-2031 (7 years call to maturity)	3%

Step 2. Determine the expected net present value savings for the potential refunding candidates on a maturity-specific basis. Net present value savings are the expected net present value savings resulting from the potential refunding of the specific-maturity refunded bond. Net present value debt service savings are calculated by discounting the relevant cash flows to the expected refunding bond closing date at a rate equal to the True Interest Cost of the associated, maturity-specific refunding bond, and taking into account all costs of issuance, including underwriters' discount.

Step 3. Divide the net present value savings for the specified maturity calculated as described above by the par amount of the refunded bonds. If the percentage savings calculated is equal to or greater than the specified minimum savings threshold, the potential refunding candidate is deemed to meet the minimum savings threshold. If the percentage savings is less than the specified minimum savings threshold the refunding candidate does not meet the threshold.

As noted previously, the Director of Finance shall have discretion in making the final determination to include individual refunding candidates that are above or below the target in order to optimize policy and/or financial objectives. Factors that may be considered by the Director of Finance include, but are not limited to:

1. **Escrow Investment Yields (Negative Arbitrage)** – For advance refundings, the Director of Finance may take into consideration the available escrow yields relative to the refunding bond yields. If the available escrow yields are lower than the refunding bond yields (negative arbitrage), it will reduce the net present value savings otherwise available



from the refunding. The Director of Finance may take negative arbitrage into account in assessing the appropriateness of a potential refunding, especially if the present value cost of such negative arbitrage is significant relative to the overall net present values savings expected to be achieved by the refunding.

2. **Coupon on Refunded Bond** – The Director of Finance may take into consideration whether the coupon on the refunded bond is significantly higher or lower than the most common outstanding bond coupons of approximately five percent.
3. **Opportunity Cost Index** – The Director of Finance may consider the amount of savings under current market conditions versus the potential savings on a theoretical future refunding on the call date.
4. **Break-even Analysis** – The Director of Finance may consider a breakeven analysis which measures the amount of basis points the market would need to move in order for the issue to realize more savings today versus a deal executed in the current call window. The lower the break-even rate, the more favorable the transaction is at the time of execution.
5. **General Interest Rate Environment** – The Director of Finance may take into consideration whether the available refunding bond interest rates are generally high or generally low relative to long-term averages of historical rates.
6. **General Interest Rate Outlook** – The Director of Finance may take into consideration the general outlook for future interest rates, as derived from economic forecasts, market forecasts, implied forward rates, or other sources.
7. **Debt Management Considerations** – The Director of Finance may take into consideration debt management issues such as cost and staff efficiencies associated with combining multiple refunding bond issues or combining refunding and new money bond issues.

Section VI. Reinvestment of Proceeds and Internal Controls on Use of Funds

A. Compliance with Laws and Other Legal Documents Governing Reinvestment of Proceeds

1. **General** – The Water Authority shall comply with all applicable Federal, State, and contractual restrictions regarding the use and investment of bond proceeds. This includes compliance with restrictions on the types of



investment securities allowed, restrictions on the allowable yield of some invested funds, as well as restrictions on the time period during over which some bond proceeds may be invested. To the extent that a bond issue is credit enhanced, the Water Authority shall adhere to the investment guidelines of the credit enhancement provider.

2. **Requirements of Resolution** – The Water Authority will comply with all terms and conditions of the General Resolution. Such limitations shall include, but not be limited to Section 5.06 of the General Resolution.
3. **Investment Policies** – The Water Authority’s Annual Statement of Investment Policy defines the permitted investments for proceeds from debt issuances. The permitted investments comply with the California Government Code. The investment of bond proceeds shall be made in accordance with the Water Authority’s Annual Statement of Investment Policy. For the current Annual Statement of Investment Policy, see the Water Authority’s website.

B. Internal Controls for Use of Proceeds

The Treasurer’s Investment Manual, an internal staff document, outlines the internal controls relating to the investment and management of debt proceeds. The Director of Finance manages the investment of proceeds in accordance with the investment policy. Key elements of the internal controls include dual verification of payments made by wire and department approval of construction invoices remitted by contractors. As discussed below, debt funds are also managed in separate accounts to eliminate the possible use of funds for operating expenditures.

Items eligible for debt proceeds are limited to those described in this Debt and Disclosure Policy (See Section I.C above). Debt proceeds funding projects should be restricted to capital projects with no private activity, unless otherwise approved by the Director of Finance. Projects eligible for the CIP are determined by the [Finance Department] and validated by the independent financial auditor.

Section VII. Creation and Maintenance of Funds

The Water Authority maintains a number of different funds integral to the LRF process. Each of these funds is held for a specific purpose and can generally be categorized as either an operating, capital or debt reserve fund. Operating funds provide the Water Authority with monies for emergencies, working capital and water rate management and consist of the Operating Fund and the RSF. Capital funds are held

⁷See <https://www.sdcwa.org/wp-content/uploads/2024/07/Investment-Policy-2024-final.pdf>



strictly for capital expenditures and consist of the PAYGO Fund and Debt Proceeds Fund (which includes both long-term and short-term debt proceeds). Debt reserve funds are held in trust for the benefit of investors in the Water Authority's long-term debt.

A. Operating Fund

The Operating Fund holds the Water Authority's working capital, emergency operating reserve and Equipment Replacement Fund. As previously indicated, the Water Authority's Administrative Code sets the target ending balance of the Operating Fund at 45 days of average annual operating expenditures provided that \$5 million of such calculated amount to be designated and held available for emergency repairs to the Water Authority's system due to unforeseen events. Working capital ensures that even with a cash receipts and disbursements mismatch, the Water Authority will have at least 30 days of Operating Funds on hand at all times. Given the short-term nature of this fund, liquidity of investments is critical and is ensured by investing the Operating Fund on a monthly basis to cover water purchases and ongoing cash disbursements. The Operating Fund, together with water sales revenue and other revenue sources, provide ample liquidity for working capital.

B. Stored Water Fund

[The Stored Water Fund previously provides the working capital necessary to optimize the Water Authority's local storage assets to make funds available to maintain the target level of local storage at 70,000 acre-feet in the San Vicente Reservoir and to track revenues from the sale of emergency waters necessary to replenish the water drawn down. In Fiscal Year 2016, the Water Authority completed the fill of the San Vicente Reservoir and updated the policy guidelines for the Stored Water Fund as the reservoir was filled. A target of 70,000 acre-feet for carryover storage inventory with a maximum of 100,000 acre-feet (storage capacity) was established.]

C. Equipment Replacement Fund

This fund is used to purchase minor capital equipment such as computer systems, vehicles and parts of the Supervisory Control and Data Acquisition (SCADA) system. It is funded by transfers from the Operating Fund per depreciation schedule.

D. Rate Stabilization Fund

The RSF was created in Fiscal Year 1989-1990 for the purpose of collecting amounts of water revenues greater than expenditures in years of strong water sales. Funds can then be used to avoid fluctuations in water rates, manage debt service coverage, or smooth out water rate increases. The RSF is a critical short-term water rate management tool that provides the necessary funds to maintain a smooth water rate pattern over a long period of time. The RSF is



expected to have an increasingly important role in managing hydrology risk and stabilizing annual revenue needs with the melded supply rate and the expansion of the Water Authority’s functional areas with treatment and desalination.

Board policy sets a target funding level for the RSF equal to the financial loss resulting from 2.5 years of above average rainfall, calculated at a 95% exceedance level. Additionally, it establishes a maximum funding level equal to the financial loss resulting from 3.5 years of above average rainfall. Defining the target and maximum funding levels of the RSF in terms of the financial impact of above average rainfall matches the size of the fund to the primary risk it is designed to mitigate and provides additional capacity for rate smoothing.

As a general rule, the Water Authority will transfer portions of its net water revenues not required to meet either its debt service coverage ratio requirement or operating fund requirement into the RSF. The Board may choose to budget for RSF deposits resulting in balances in excess of the target level but not in excess of the maximum level for the purposes of rate smoothing. Balances below the target level are to be replenished within three years. Interest earnings accrue to the RSF unless the maximum balance is achieved, at which point they will be deposited into the Operating Fund. Transfers from the RSF are used solely to pay Maintenance and Operation Costs (as defined in the General Resolution) of the Water Authority. The RSF is managed so that any funds above the maximum balance will be transferred to the Operating Fund—Operating Fund balances above the existing 45-day policy are subject to discretionary use by the Board. For further information on the RSF, see Sections 2.01 and 2.03 of the General Resolution.

E. Pay-As-You-Go Fund

The PAYGO Fund was established in Fiscal Year 1990 to serve as a mechanism to collect Capacity Charges and Standby Charges to be used to pay for the cash portion of the CIP. The PAYGO Fund is a “capital fund”, as opposed to a “reserve fund,” meaning that the monies in the fund will be spent directly on capital expenditures, not held in reserve for some other purpose. The PAYGO Fund is projected to be spent over the next eleven years in conjunction with cash generated by operations to fund the pay-as-you-go portion of the CIP. Typically, the annual expenditure of PAYGO funds corresponds to a percentage of the annual CIP expenditure for a particular year, as dictated by the optimal funding mix derived through the long-range computer modeling process.

F. Debt Proceeds Fund

Similar to the PAYGO Fund, the [Debt Proceeds Fund] also holds capital funds for eventual expenditure towards the Water Authority’s CIP. Monies deposited into the Debt Proceeds Fund are produced by the Water Authority’s sale of securities in the form of long-term and short-term debt. Upon the sale of any single issue of debt, federal tax law currently dictates that the Water Authority must reasonably expect to spend the proceeds of the issue within three years. As a result, the Debt Proceeds Fund will typically fluctuate over two-to-three-year periods as funds are



raised through debt issuance every two-to-three years and then largely spent prior to the next issuance.

G. Debt Service Reserve Fund

Funds in the Debt Service Reserve Fund may be required under legal documents governing the issuance of the Water Authority's long-term debt. They are funded as either a percentage of the par amount of long-term debt issued or as one year of debt service on the issue and are held in trust for the benefit of investors in the debt issued. The funds may be used for debt service on an issue, if for any reason the Water Authority is unable to make a scheduled payment. In lieu of holding a cash-funded reserve fund, the Water Authority may substitute a surety bond or other credit facility in its place. The decision to cash-fund a reserve fund versus using a credit facility is dependent upon the cost of the credit facility and the investment opportunities and restrictions on a cash-funded reserve fund.

Section VIII. Compliance⁸

A. Arbitrage Liability Management

The Water Authority shall maximize interest earnings and minimize the cost of arbitrage rebate and yield restrictions while strictly complying with tax law. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the Water Authority shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations.

The Water Authority must assure payment of the required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed. Five year anniversary payments require 90% payment of the required rebate amount within 60 days after each 5-year anniversary of the issue date, while redemption payments require 100% payment due within 60 days after the final redemption or maturity date of the bond issue. The Water Authority shall contract with a qualified third-party for preparation of the arbitrage rebate calculation and determination of any required rebate amount.

The Water Authority shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings to meet the arbitrage rebate compliance requirements, including causing arbitrage to be reviewed approximately one year following the issuance of each series of Securities. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue. Investment may be pooled for financial accounting purposes and for investment purposes. When investment of bond proceeds are co-mingled with other investments, the Water Authority shall adhere to IRS rules on accounting allocations.

⁸ Subject to review by Bond Counsel.



B. Post-Issuance Tax Compliance – Tax-Exempt Bonds

In order to maintain the tax-exempt status of certain of the Water Authority debt obligations, as applicable, the Water Authority shall comply with the following procedures, as the same may be supplemented by various documents executed in connection with each individual bond issuance, including the certificate of the lead underwriter underwriter as submitted at the time of closing of the Bond issue, as well as the Tax Certificates executed by the Water Authority to represent various facts regarding federal tax law compliance, and the Form 8038-G (Information Return for Tax-Exempt Governmental Obligations) which is filed around the time of issuance.

1. **Arbitrage Rebate and Yield** - Unless a Tax Certificate documents that bond counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:
 - The Water Authority shall engage the services of a Rebate Service Provider, and the Water Authority or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;
 - upon request, appropriate Water Authority personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
 - appropriate Water Authority personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and
 - during the construction period of each capital project financed in whole or in part by the Bonds, appropriate Water Authority personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issuance date of the Bonds.
2. **Procedures Regarding Use of Bond proceeds** - After a Bond sale, Bond proceeds are deposited into separate accounts (i.e., they are not commingled with revenues of the Water Authority). Once the proceeds are deposited in such accounts, investment earnings are allocated to the same



accounts. Set forth below are the procedures of the Water Authority to ensure the correct use of Bond proceeds. Appropriate Water Authority personnel shall:

- monitor the use of Bond proceeds, the use of Bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Bond-financed assets throughout the term of the Bonds (and in some cases, beyond the term of the Bonds) to ensure compliance with covenants and restrictions set forth in applicable Water Authority resolutions and Tax Certificates;
 - maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds;
 - consult with bond counsel prior to entering into any licenses, leases, management contracts, or other contracts or arrangements potentially resulting in the use of Bond financed facilities by nongovernmental persons, in order to ensure compliance with all covenants and restrictions set forth in applicable Water Authority resolutions or Tax Certificates;
 - maintain records for any contracts or arrangements involving the use of Bond-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable Water Authority resolutions and Tax Certificates; and
 - meet at least annually with personnel responsible for Bond-financed assets to identify and discuss any existing or planned use of Bond-financed assets, and the use of output or throughput of Bond-financed assets, to ensure that those uses are consistent with all covenants and restrictions set forth in applicable Water Authority resolutions and Tax Certificates.
3. **Ongoing Procedures** - This policy, the Tax Certificate for each Bond issue, and to the extent incorporated in the Tax Certificates, Form 8038-G, will be reviewed by the Director of Finance/Treasurer or her designee (i) on or prior to each 5-year anniversary date of the issue date of the Bonds;
- (ii) on or within 30 days of the date the Bonds are retired, defeased or refunded;
 - (iii) on or prior to the date of any rebate payment made if that date is not within 60 days of one of the dates mentioned in (i) or the date the Bonds are retired, defeased or refunded;
 - (iv) at the time of any change in use of any asset that was funded with a material amount of Bond proceeds; and
 - (v) at the time of the occurrence or non-occurrence of any other event that could affect the tax-exempt status of the Bonds as indicated in the Tax Certificate (e.g., the occurrence of an event which the Tax Certificate represents will not occur or is not expected to occur, or the nonoccurrence of an event the Tax Certificate represents will or is expected to occur). This review will be made for the purposes of identifying any possible violation of federal tax requirements related to



BABs and to ensure the timely correction of those violations for remedial action described in Treasury Regulations or through the Tax-Exempt Bonds Voluntary Closing Agreement Program. If a possible violation is identified, the Director of Finance/Treasurer will consult with the Water Authority's bond counsel.

4. **Record Keeping** - Records necessary to support the status of Bonds as tax-exempt will be maintained for the life of the Bonds, and any bonds that refund the Bonds plus three years. These records may be maintained on paper, or by electronic media, or by any combination thereof.

C. Continuing Disclosure

The Water Authority shall comply with the requirements of each Disclosure Agreement entered into at the time of a sale of bonds and in accordance with this Debt and Disclosure Policy as set forth in Section IX below. Annual information provided by the Water Authority generally should be consistent with information contained in any contemporaneous Water Authority Official Statement that is being utilized in a primary offering. In addition to annual disclosure, the Water Authority shall provide ongoing information about certain enumerated events, as defined by regulation and as set forth in the Water Authority's Disclosure Agreement, to the MSRB.

D. Legal Covenants

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

Section IX. Communication and Disclosure Policies

A. Rating Agencies

The Water Authority shall take steps towards maintaining its strong ratings with rating agencies selected by the Director of Finance through prudent fiscal management and consistent communications with the rating analysts. The Director of Finance shall manage relationships with the rating analysts assigned to the Water Authority's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies selected by the Director of Finance may include:

- Disclosure on an annual basis of the financial condition of the Water Authority;
- A formal presentation, at least biennially or as becomes necessary to the rating agencies, covering economic, financial, operational, and other issues that impact the Water Authority's credit;
- Timely disclosure of major financial events that impact the Water Authority's credit;
- Timely dissemination of the Annual Comprehensive Financial



- Report, following its acceptance by the Board;
- Timely distribution of any documents pertaining to the sale of Securities; and
 - Periodic tours of the water system operations, as appropriate.

B. Bond Insurers

The Director of Finance shall manage relationships with the analysts and the bond insurers assigned to the Water Authority's credit, using both informal and formal methods to disseminate information. Communication with the bond insurers shall be undertaken when the Director of Finance, with the assistance of the Water Authority's Municipal Advisor, determines that credit enhancement is cost effective for a proposed Security issue.

C. Public Statements Made by the Water Authority.

Statements which may be considered information expected to reach investors and thus possibly subject to the rules described in this Debt and Disclosure Policy include public addresses, statements and speeches; press releases; information posted anywhere on the Water Authority's website; press conferences; publicly made comments by Board or staff members whether oral or in writing; and Board proceedings, all of which may be monitored or reviewed by rating agencies, investor analysts and other market participants. Accordingly, Water Authority officials should not make statements that are misleading about Water Authority finances and operations, and any such statements should be accurate and complete.

In connection with the marketing of its Securities or other debt obligations, Water Authority management will make formal presentations to the rating agencies engaged to rate the Securities or other debt obligations as stated above and may make presentations to investors. These presentations are governed by, and the Water Authority is required to comply with, the same rules described in this Debt and Disclosure Policy.

D. Initial or Primary Market Disclosure

The Water Authority must comply with the securities laws when it initially issues Securities or enters into other debt obligations and has a continuing obligation to comply with securities laws while its Securities or other debt obligations are outstanding. In order to inform potential investors of what they need to know in order to decide whether or not to transact in the Securities or other debt obligations, its initial or primary market disclosure (generally in the form of an Official Statement or Offering Documents) should include information that describes (i) the Securities or other debt obligation, (ii) the Water Authority, (iii) the projects to be financed or refinanced, and (iv) the security and sources of repayment of the Securities, and



(v) risk factors. The Water Authority’s initial or primary market disclosure will be used by the underwriters in the marketing of its Securities or other debt obligations and should contain a description of risks associated with investment in the Securities or other debt obligations. A well prepared Official Statement may also function as the Water Authority’s primary defense against claims that the Water Authority violated the antifraud rules in connection with offerings of its Securities or other debt obligations.

E. Continuing or Secondary Market Disclosure

The Rule requires underwriters of many Securities or other debt obligations to obtain a written agreement that the issuer will provide to investors certain ongoing, or “continuing”, disclosure. Continuing disclosure information is intended to reflect the financial or operating condition of the Water Authority as it changes over time, as well as specific events occurring after issuance, that can have an impact on both the ability to pay amounts owed and the market value of the Securities or other debt obligations if bought or sold prior to maturity. Each applicable publicly-issued Security or other debt obligation has its own continuing disclosure requirements, and not all types of continuing disclosure may apply.

In furtherance of its continuing disclosure undertakings and to promote compliance with applicable law, the Water Authority has adopted and maintains disclosure policies and procedures that are reasonably designed to create compliance with securities laws, including to:

(a) result in accurate, timely and complete public disclosures; (b) identify the persons involved in the disclosure process; (c) evaluate other public disclosures that the Water Authority has made, including financial information and other statements, prior to public dissemination; and (d) assure that responsible individuals receive adequate training about their obligations under the Federal securities laws.

The Water Authority’s Continuing Disclosure Procedures are set forth in Appendix B attached hereto. Those procedures provide that the Director of Finance, or his or her designee, serves as Disclosure Coordinator for the Water Authority.

Section X. Debt Database Management

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

- Issue Name
- Initial Issue Par Amount
- Dated Date of the Issue
- Principal Maturity Amounts
- Coupon Rate by Maturity
- Amount Outstanding
- Call Provisions



- Purpose of the Issue
- Credit Enhancer, if any
- Competitive or Negotiated Sale
- Names of Underwriting Team Members
- Other information as applicable

The Water Authority shall use the debt database for the following purposes:

- Generate reports
- Gross annual debt service
- Net annual debt service
- Refunding Analyses
- Output to Fund Accounting System



GLOSSARY

For purposes of this Debt and Disclosure Policy:

“**Annual Debt Transparency Report**” means the annual debt transparency report required to be filed with CDIAC pursuant to Govt. Code Section 8855.

“**Annual Filing**” means annual financial information and operating data to be filed with the MSRB pursuant to Disclosure Agreements.

“**Bond Counsel**” means the Bond Counsel to the Water Authority.

“**CDIAC**” means California Debt and Investment Advisory Commission.

“**DAC**” means Digital Assurance Certification, LLC, an accounting firm that provides post-issuance securities and tax compliance services to municipal securities market participants.

“**Disclosure Agreement**” means the provisions of each continuing disclosure agreement, ordinance, order, resolution, letter of credit reimbursement agreement, commercial paper dealer agreement, indenture, bond insurance commitment or other agreement of the Water Authority by which the Water Authority undertakes to provide financial and operating data periodically, and timely notices of certain events or other reporting requirements, to the MSRB or others, whether expressly or as the only nationally recognized municipal securities information repository under the Rule.

“**Debt and Disclosure Policy**” means the Statement of Debt Management and Disclosure Policy adopted by the Water Authority on January 22, 2026.

“**Disclosure Coordinator**” means the officers or employees of the Water Authority charged with exercising the responsibilities of a Disclosure Coordinator under this Debt and Disclosure Policy as described in Appendix B.

“**Disclosure Counsel**” means counsel engaged from time to time by the Water Authority with the approval of the General Counsel to give advice to the Water Authority in accordance with this Debt and Disclosure Policy.

“**Disclosure Working Group**” means the officers or employees of the Water Authority charged with exercising the responsibilities of the Disclosure Working Group in preparing or reviewing any Public Statements under this Debt and Disclosure Policy.

“**EMMA**” refers to MSRB’s Electronic Municipal Market Access reporting system.

“**Event Notice**” refers to notice of a Listed Event required to be delivered by the Water Authority to the MSRB pursuant to the Disclosure Agreements and the Rule.



“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Financial Professionals**” means financial professionals performing services for the Water Authority’s debt programs, such as financial advisors, accountants, consultants and underwriters.

“**General Counsel**” means the General Counsel to the Water Authority.

“**Govt. Code Section 8855**” means Section 8855 of the Government Code of the State of California.

“**Investor Inquiry Coordinator**” means the Director of Finance/Treasurer or the officers or employees of the Water Authority charged with exercising the responsibilities of an Investor Inquiry Coordinator under this Debt and Disclosure Policy.

“**IRMA**” means Independent Registered Municipal Advisor.

“**IRS**” means the Internal Revenue Service.

“**Listed Events**” a list of any list of events required to be disclosed under any Disclosure Agreements.

“**Material**”, “**Materiality**” or “**Materially**” when used with respect to a fact included in a Disclosure Document means, generally, that a reasonable investor likely would attach significance to it in making a decision to buy, hold or sell Securities of the Water Authority. When questions of Materiality arise, the General Counsel and/or Disclosure Counsel should be consulted, however ultimately it is the issuer’s responsibility. When determining Materiality, some items that auditors consider include, for example, whenever the item (i) has a material impact on the financial statements (e.g. a critical accounting estimate or significant unusual transaction), (ii) may become a matter of public interest or exposure, (iii) applies to a new accounting standard or policy or (iv) relates to changes in internal control over financial reporting.

“**Member Agency**” means the 22 member agencies are comprised of 6 cities, 5 water districts, 3 irrigation districts, 7 municipal water districts, and 1 federal military base.

“**MSRB**” means the Municipal Securities Rulemaking Board.

“**MWD**” means the Metropolitan Water District of Southern California.

“**Offering Documents**” means preliminary and final Official Statements, commercial paper offering memoranda and other documents by which Securities or other debt obligations are offered to the public by the Water Authority as well as solicitation statements by which the Water Authority offers to purchase its Securities or requests consents or waivers regarding Securities or other debt obligations.



“**Official Statements**” means any preliminary and final official statements, together with any supplements issued in primary offerings of Securities or other debt obligations.

“**Presentations/Releases**” means press releases, publications, media interviews, presentations (including investor presentations), speeches, and other statements of the Water Authority or its officials and employees that could reasonably be Material to investors in Securities or other debt obligations.

“**Public Information Officer**” means the Director of Public Outreach and Conservation of the Water Authority or the officers or employees of the Water Authority charged with exercising the responsibilities of a Public Information Officer under this Debt and Disclosure Policy.

“**Public Statement**” means any statement or other communication that is intended (or reasonably can be expected) to be accessible to and reasonably relied upon by investors in Securities, including, as applicable: (i) Offering Documents; (ii) information filed with the MSRB through the EMMA, including Annual Filings and Event Notices; (iii) information uploaded or linked or posted to the website of the Water Authority; or (iv) statements made by the Water Authority or any of its officials and employees that could reasonably be Material to investors in Securities, including Presentations/Releases.

“**Report of Final Sale**” means a report of the final sale no later than 21 days after the sale of any debt issue.

“**Reporting Period**” refers to the reporting period beginning July 1 through June 30.

“**Rule**” means Rule 15c2-12 adopted by the SEC under the Exchange Act, as the same may be amended from time to time.

“**Securities**” means bonds, notes, certificates of obligation, certificates of participation and other debt obligations or debt instruments or securities of the Water Authority, or the payment of which the Water Authority is obligated to support by a lease, contract or other arrangement, that are sold to or otherwise held or traded in by investors in each case that are securities.

“**SEC**” means the United States Securities and Exchange Commission.

“**Securities Act**” means the Securities Act of 1933, as amended.

“**Transcript and File**” means the form of an electronic or paper file for each Public Statement that the Water Authority completes.

“**Water Authority**” means the San Diego County Water Authority.

“**Web Manager**” means Director of Finance or their delegated person, who reports to the Director of Administrative Services and is the employee of the Water Authority charged with operating, updating, and maintaining the Water Authority’s website and exercising the responsibilities of the Web Manager under this Debt and Disclosure Policy.

Appendix A Legal Governing Principles

A. Governing Law

County Water Authority Act – The Water Authority is a public agency created in 1944 under the County Water Authority Act (the **Act**), California Statutes 1943, Chapter 45, as amended. The Act establishes the Water Authority’s legal authority to issue debt and the limitations therein. The Water Authority shall comply with all constraints of the Act.

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

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

B. Governing Legal Documents

General Resolution – The Water Authority’s debt issuance is further governed by Resolution No. 89-21, adopted May 11, 1989, Resolution No. 97-52, adopted December 11, 1997, and Resolution No. 09-23, adopted on December 17, 2009, all of which together constitute the General Resolution. The General Resolution establishes the basic security structure of debt issued by the Water Authority that is secured by Net Water Revenues. Key terms and conditions include, but are not limited to, the definition of pledged revenues, the rate covenant and the additional bonds test. A copy of the General Resolution can be found on the Water Authority’s website.⁹ The Water Authority shall comply with all limitations imposed under the General Resolution.

C. Permitted Debt by Type

The Water Authority may legally issue both short-term and long-term debt, using the instruments described below. The Director of Finance, in consultation with the Water Authority’s General Counsel and Bond Counsel, shall determine the most appropriate instrument for a proposed bond sale.

General Obligation Bonds – The Water Authority is empowered, under its Act, to levy taxes on all taxable property within its boundaries for the purpose of paying its voter-approved general obligation bonds and, subject to certain limitations in the Act, the California Revenue and Taxation Code and the California Constitution, for other Water Authority purposes. The Water

⁹ See - <https://www.sdcwa.org/wp-content/uploads/2020/11/General-Resolution.pdf>

Authority is authorized to sell general obligation bonds under Section 7 of the Act, subject to the approval of a two-thirds majority of those voting in a local election.

Certificates of Participation – Certificates of Participation (**COP**) provide financing through a lease, installment sale agreement or contract of indebtedness and typically do not require voter approval. Board action is sufficient to legally authorize a COP issue. The Water Authority is permitted to use the installment sale form of COPs, based upon its ability to execute installment sale agreements (Section 5 of the Act) and contracts of indebtedness (Section 8 of the Act). The Water Authority’s issuance of COPs is facilitated by the San Diego County Water Authority Financing Corporation, a California nonprofit benefit corporation that was created by the Water Authority specifically to serve as party to the installment sale agreements and contracts of indebtedness securing Water Authority COPs. The Water Authority shall pledge net revenues to the repayment of its COPs, under the terms and conditions specified in the General Resolution.

Joint Powers Agency Revenue Bonds – As an alternative to COPs, the Water Authority may obtain financing through the issuance of bonds by a joint exercise of powers agency with such bonds payable from amounts paid by the Water Authority under a lease, installment sale agreement, or contract of indebtedness. The San Diego County Water Authority Financing Agency is a joint exercise of powers agency formed for the purpose of facilitating Water Authority financing through the issuance of such revenue bonds.

Commercial Paper – Per Section 8.2 of the Act, the Water Authority may issue short-term revenue certificates, including commercial paper and extendable commercial paper. Board action is sufficient to legally authorize a commercial paper issue. The Water Authority’s commercial paper is secured by net revenues, but on a subordinate lien basis to the Water Authority’s long-term debt (i.e. COPs). Voter approval is not required to issue commercial paper.

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

Revenue Bonds – The Water Authority is authorized to issue revenue bonds (Section 7.5 of the Act), as further described in the Revenue Bond law of 1941 (Chapter 6, commencing with Section 54300, or Part 1 of Division 2 of Title 5 of the Government Code). The Water Authority shall pledge net revenues to the repayment of any revenue bonds under the terms and conditions specified in the General Resolution.

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

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

D. Selection of Lien and Limitations on Debt Issuance

The Director of Finance will determine whether Securities or other debt obligations of the Water Authority are issued as Senior Obligations, Subordinate Obligations, or otherwise. The decision on which lien to issue will be based in part on the type of Security being issued, the impact of the Security or other debt obligation on the Water Authority's ratings and the LRFP.

Subordinate Obligations – The Water Authority may issue Securities or other debt obligations as Subordinate Obligations. The Water Authority's Subordinate Obligations, for which net revenues are pledged, shall be limited to that amount for which current and projected revenues generate overall debt service coverage of at least 100 percent if no subordinate bonds are outstanding, and 105 percent if subordinate bonds are outstanding.

Senior Obligations – The Water Authority may issue Securities or other debt obligations as Senior Obligations. The Water Authority's Senior Obligations, for which net revenues are pledged, shall be limited to that amount for which current and projected revenues generate a Senior Obligations debt service coverage of at least 120 percent. The calculation of debt service shall not include general obligation bonds or assessment bonds, to which revenue sources other than pledged revenues, as defined in the General Resolution, are pledged. It should be noted that the Board has adopted a policy that sets the Senior Obligations debt service coverage target of 150 percent in keeping with its prudent financial management.

Appendix B

Water Authority has adopted this Debt and Disclosure Policy in order to assist the Water Authority in preparing, reviewing and timely filing of, as applicable, Public Statements which includes any statement or other communication that is intended (or reasonably can be expected) to be accessible to and reasonably relied upon by investors in Securities or other debt obligations, including: Offering Documents; Annual Filings and Event Notices; or statements made by the Water Authority or any of its officials and employees that could reasonably be Material to investors in Securities or other debt obligations. This Debt and Disclosure Policy is intended to guide the Water Authority's compliance with its initial and continuing disclosure obligations with respect to the Securities or other debt obligations it issues or that are issued on its behalf, under applicable laws, rules, regulations and contractual obligations.

A. Key Participants in Continuing Disclosure

1. Disclosure Coordinator. The Director of Finance, or his or her designee, will serve as Disclosure Coordinator for the Water Authority. Should the designated Disclosure Coordinator be unavailable to act as Disclosure Coordinator, the Director of Finance, or the General Manager if the Director of Finance is unavailable, will appoint someone to act in his or her place. The Disclosure Coordinator will:

(i) Serve as the primary point of contact for the Water Authority personnel and other persons to communicate issues or information that should be or may need to be considered for inclusion in any Public Statement;

(ii) Monitor and coordinate timely compliance by the Water Authority and the Disclosure Working Group with this Debt and Disclosure Policy and applicable laws;

(iii) Recommend changes to this Debt and Disclosure Policy to the Disclosure Working Group or the Board as necessary or appropriate;

(iv) Maintain records documenting the Water Authority's compliance with this Debt and Disclosure Policy and applicable laws; and

(v) Whenever the Disclosure Coordinator determines that a Public Statement could be Material to investors, consult with Disclosure Counsel and determine whether to (a) cause such Public Statement to be filed with the MSRB through EMMA and/or (b) send a link to such filing to the Web Manager, for inclusion on the Water Authority's investor relations website.

2. Disclosure Working Group. The persons charged with preparing or reviewing any Public Statements under this Debt and Disclosure Policy (the Disclosure Working Group) shall consist of the following and should convene in person, by telephone and/or via other methods of communications if, when and as needed, and at least once prior to the finalization of any preliminary and final Official Statements, commercial paper offering memoranda and other documents by which Securities or other debt obligations are offered to the public by the Water Authority as well as solicitation statements by which the Water Authority

offers to purchase its Securities or other debt obligations or requests consents or waivers regarding Securities or other debt obligations:

- (i) Disclosure Coordinator;
- (ii) General Counsel, or his or her designee;
- (iii) Disclosure Counsel, as designated by the General Counsel;
- (iv) Financial Professionals, if applicable and as designated by the Director of Finance; and
- (v) Such other members of the Disclosure Working Group as the Director of Finance determines to be appropriate, including Department Heads staff level and above.

B. General Disclosure Procedures

The Disclosure Working Group will implement the procedures set forth in this Debt and Disclosure Policy in preparing, reviewing or disseminating all Public Statements. Procedures that are specific to the monitoring, preparing, reviewing or disseminating of Event Notices, website postings, Investor Inquiries and Presentations/Releases are described herein and are in addition to the procedures described in this section.

1. Establishing Scope and Process. Prior to making any Public Statement, to establish scope and process for such Public Statement, the Disclosure Working Group should:

- (i) determine what information should be contained in the Public Statement;
- (ii) ensure that the information provided in the Public Statement is current and meets the requirements of any Disclosure Agreement or applicable laws with respect to the information required to be included in such Public Statement;
- (iii) assign responsibilities for assembling and verifying the information to be included in the Public Statement; and
- (iv) establish a schedule for producing the information to be contained in the Public Statement that will allocate sufficient time for any final review and approvals required pursuant to this Debt and Disclosure Policy and to meet any deadlines under applicable Disclosure Agreements.

While the information included in a prior Public Statement of the same nature may be used as a starting point for a new Public Statement, the Disclosure Working Group should provide suggestions for improvement to each Public Statement and should not assume that any prior

Public Statements contain all of what may be then appropriate to include in the new Public Statement.

2. Assembling Current Information. The Disclosure Coordinator should:

(i) as applicable, solicit information via email from the General Manager, Director of Finance, General Counsel and Disclosure Counsel and others who are likely to know or be able to obtain and verify information required to be included in the Public Statement;

(ii) assign responsibilities to the applicable persons for assembling and verifying the information required to be included in the Public Statement;

(iii) work with the General Manager, Director of Finance, General Counsel and Disclosure Counsel to assure that providers of information required to be included in a Public Statement devote sufficient time and care to produce timely and accurate information, when requested;

(iv) work with providers of information required to be included in a Public Statement to (1) assemble, verify and forward such information to the Disclosure Coordinator and (2) notify the Disclosure Coordinator of any other facts which may be Material to investors or with respect to the information required to be included in the Public Statement;

(v) when questions of Materiality arise, consult with the General Counsel and/or Disclosure Counsel;

(vi) for Annual Filings, compile and maintain (and update after every issuance, redemption or defeasance or other satisfaction of Securities or other debt obligations) a list of all financial information and operating data required to be filed in an Annual Filing;

(vii) with advice from Disclosure Counsel, determine whether information contained in a Public Statement would Materially change the total mix of information about the Water Authority that is available to investors;

(viii) distribute drafts of the Public Statements to the Disclosure Working Group for review together with, if necessary for the Disclosure Working Group's consideration, a description of the process used to compile the Public Statement;

(ix) if necessary, modify or cause to be modified the Public Statements as the Disclosure Coordinator deems advisable on the advice of Disclosure Counsel to respond to comments from members of the Disclosure Working Group;

(x) submit such Public Statements to the Director of Finance and General Counsel for approval; and

(xi) where applicable and appropriate, coordinate with the Water Authority Member Agencies, or the Member Agency employee responsible for preparing information contained in other Member Agency Public Statements, to align the Water Authority's Public Statement with the contents of such other Member Agency Public Statements.

3. Review for Process, Accuracy and Completeness. The members of the Disclosure Working Group should review the materials provided by the Disclosure Coordinator for accuracy, completeness and compliance with federal and state laws, and should, if applicable, ask questions of the Disclosure Coordinator to determine whether, based on information known or reported to them, (i) this Debt and Disclosure Policy was followed, (ii) the Material facts in the Public Statements are consistent with those known to the members of the Disclosure Working Group and (iii) the Public Statements contain any untrue statement of any Material fact or omit to state a Material fact that is necessary to be included or revised to prevent the Public Statements from being misleading to investors. The Disclosure Coordinator should take such action as may be necessary, based on comments from the Disclosure Working Group, to enable the Disclosure Working Group to conclude that the issues described above can be answered in the affirmative.

4. Final Approval. The Disclosure Working Group or Disclosure Coordinator, as applicable, should approve the final draft of any Public Statement. Approval of the Disclosure Working Group should be obtained for:

- (i) Offering Documents;
- (ii) Annual Filings;
- (iii) investor presentations; and
- (iv) any forward looking Public Statements of the Water Authority.

The Disclosure Coordinator may approve, without formal approval of the Disclosure Working Group:

- (v) Event Notices;
- (vi) Website postings;
- (vii) Press releases;
- (viii) Financial or operational information that has already been disseminated publicly, and
- (ix) Disclosure Documents that contain no discretionary content; unless any of the foregoing information described in this sentence Materially changes

information regarding the Water Authority which is already publicly available, in which case approval of the Disclosure Working Group should be obtained.

If the Public Statement is to be disseminated by or through Disclosure Counsel, the Public Statement may be disseminated when the Disclosure Coordinator confirms that (i) the Public Statement has been reviewed and approved by all required persons, (ii) there are no Material errors, misrepresentations, or omissions of which the Disclosure Coordinator is aware, and (iii) the Water Authority authorizes the Public Statement to be disseminated.

5. Dissemination. After the Public Statement is approved as provided in this Debt and Disclosure Policy, the Disclosure Coordinator should:

(i) authorize and direct Disclosure Counsel, DAC or other contracted dissemination agent, or the underwriters in a negotiated sale of Securities or other debt obligations, to disseminate the Public Statement, as applicable, and in compliance with any applicable Disclosure Agreement and applicable law;

(ii) if applicable, notify the Web Manager (as defined below) of the dissemination of the Public Statement;

(iii) if applicable, provide the Web Manager with a link to the page on which the Public Statement is posted on EMMA;

(iv) if applicable, provide the Web Manager with appropriate text and text edits for the Water Authority website, to accompany the posting of the Public Statement;

(v) if applicable, include the link on the Water Authority's website or otherwise post the Public Statement in the appropriate section of the Water Authority's investor relations website; and

(vi) if applicable and/or required by contract, provide a copy to third parties including service providers in connection with Securities or other debt obligations, Dissemination Agent(s), liquidity provider(s), custodian(s), trustee(s), bond insurer(s) and rating agencies.

6. Documentation and Document Retention. The Disclosure Coordinator will be responsible for retaining records of compliance with this Debt and Disclosure Policy in the Transcript and File. He or she will compile and retain the Transcript and File, which may be in electronic or email form, of the actions taken to prepare, review and approve each Public Statement, including the sources of the information included, the comments and actions of the Disclosure Working Group, the description of the process followed by the Disclosure Coordinator and the approvals required by this Debt and Disclosure Policy. Such Transcript and File should be accessible to other members of the Disclosure Working Group and all electronic records should be backed up regularly. Each Transcript and File should include the following, as applicable:

- (i) final versions of the Public Statement;
- (ii) the information required to be collected pursuant to this Debt and Disclosure Policy, the certifications described in this Debt and Disclosure Policy, and any other confirmations, opinions or documents related to the Public Statement;
- (iii) copies of this Debt and Disclosure Policy;
- (iv) copies of any training materials provided to the Disclosure Working Group or the Water Authority staff; and
- (v) a record of the dates of any meetings of the Disclosure Working Group, if any.

Each Transcript and File should be maintained on a continuous basis in a central repository for a period of five years from the later of: (x) the date the applicable content of the Transcript and File is published, posted or otherwise made publicly available, as applicable or (y) the date that all of the Securities or other debt obligations described therein are no longer outstanding.

C. Event Notices Procedures

1. Identification of Reportable Events. The Disclosure Coordinator should maintain a list of any list of events required to be disclosed under any Disclosure Agreements (Listed Events) which may require notice of a Listed Event required to be delivered by the Water Authority to the MSRB pursuant to the Disclosure Agreements and the Rule (an Event Notice). The Disclosure Coordinator should review this list at least once each week to determine whether any Listed Event has occurred that may require the filing of an Event Notice. The Disclosure Coordinator (with the assistance of members of the Disclosure Working Group) should:

- (i) identify the officers and employees of the Water Authority who are most likely to first obtain knowledge of the occurrence of any Listed Events;
- (ii) on a weekly basis, request in writing that the identified officers and employees notify the Disclosure Coordinator immediately after learning of any Listed Event, regardless of Materiality; and
- (iii) on a weekly basis, monitor, or direct the Disclosure Counsel or a contracted vendor to monitor, bond ratings for changes.

The timing of Event Notices, and the specific types of events which are subject to the notices, depend on the specific terms of the applicable Disclosure Agreement. Certain items are required to be reported as soon as within ten (10) business days following their occurrence (and certain of such occurrences, for example, ratings changes, can happen without notice to the Water Authority). Others are required to be reported only if they are deemed to be Material. The

General Counsel and Disclosure Counsel should be consulted for specific advice regarding timing and Materiality.

2. Preparation of Event Notice. The Disclosure Coordinator should:

(i) assess whether the Listed Event is reportable under the Disclosure Agreements upon consultation with counsel and, if notice of the Listed Event must be given;

(ii) prepare an Event Notice; and

(iii) comply with the final approval and documentation procedures in this Debt and Disclosure Policy.

3. Review and Approval of Event Notice. The Director of Finance and General Counsel or if so designated by the General Counsel, Disclosure Counsel, should promptly review and approve or comment on the draft Event Notice. The Disclosure Coordinator should incorporate such comments into the Event Notice to be filed with EMMA.

4. Posting. The Disclosure Coordinator should authorize and direct Disclosure Counsel, DAC or other contracted dissemination agent to file the Event Notice with the MSRB through EMMA by the deadline established by the Disclosure Agreements in the format and with the identifying information required by the Disclosure Agreements, including CUSIP numbers for the applicable Securities or other debt obligations.

D. Website

1. Review of Website. The Disclosure Coordinator and the employees of the Water Authority charged with operating, updating, and maintaining the Water Authority's website and exercising the responsibilities of the Web Manager should review the investor relations section of the Water Authority's website at least quarterly to assure that (i) information provided by third parties and/or divisions of the Water Authority other than the finance division is not included, linked or referred to without appropriate disclaimers, and is not included unless the Disclosure Coordinator has reason to believe that it is reliable and identifies the source of the information, (ii) dated information is removed from the website or clearly labeled as archived information, as appropriate, (iii) all Material financial and operating data is presented as of a specific date with appropriate disclaimers as to the currency of the data, (iv) no Material forward-looking statements (projections, forecasts, etc.) are included unless they are based on reasonable assumptions and are accompanied by a description of the substantial risks to achieving the forecasted results and (v) the Material information presented is consistent with the knowledge of such persons and not internally inconsistent.

2. Postings. The Web Manager should review each posting of information to the website to assure consistency with this Debt and Disclosure Policy. With respect to each Public Statement it receives from the Disclosure Coordinator, the Web Manager should add a link to the document or post the document in the appropriate section of the website.

3. Documentation of Procedures. The Web Manager should compile and maintain a record of (i) the source of all Material information included on the Water Authority's website, (ii) the scope and results of each review of the website pursuant to this Debt and Disclosure Policy and (iii) the actions taken following each such review.

E. Investor Relations Program and Inquiries

The Water Authority shall establish and maintain an Investor Relations Program. The objectives of the program will be to:

- Reduce borrowing costs by improving demand for future bond sales;
- Keep investors continually informed of the issues facing the Water Authority;
- Obtain investor feedback on debt management considerations; and
- Create access to market opportunities such as shorter call provisions or tender programs.

1. Investor Inquiry Coordinator. The Director of Finance, or such person appointed by the Director of Finance to act in his or her place, will serve as the Investor Inquiry Coordinator.

2. Processing of Investor Inquiries. Except for communications that occur in connection with primary offerings of Securities or other debt obligations which are handled by the Director of Finance, all inquiries from investors will be managed by the Investor Inquiry Coordinator. If any other employee of the Water Authority receives an inquiry from a person that identifies himself or herself as an investor or potential investor in the Water Authority Securities or other debt obligations, that employee should refer such inquiry to the Investor Inquiry Coordinator.

3. Responses to Investor Inquiries. With respect to each inquiry from an investor, (i) if information necessary to respond to such inquiry has already been included in a Public Statement, then the Investor Inquiry Coordinator may respond to such inquiry using information contained in the Public Statement and (ii) if information necessary to respond to such inquiry is not obtainable from information included in a Public Statement, then the Investor Inquiry Coordinator will coordinate with the Disclosure Coordinator and General Counsel to develop a response to such inquiry in a manner that assures that it is accurate and available to all investors at the same time. This process may include convening a meeting of the Disclosure Working Group for broader inquiries or ones that require subjective judgment in responding.

4. Documentation. The Investor Inquiry Coordinator will compile and maintain a record of investor inquiries and responses and forward such record to the Disclosure Coordinator for retention in accordance with this Debt and Disclosure Policy. The record of investor inquiries should be retained for a period of five years from the later of: (x) the date of the response to each investor inquiry or (y) the date that all of the Securities or other debt obligations described therein are no longer outstanding.

F. Presentations/Releases and Other Public Statements

1. Notification of Disclosure Coordinator. The Public Information Officer and/or the Director of Finance, as applicable, will notify the Disclosure Coordinator of each Presentation/Release proposed to be issued and, whenever possible, provide the Disclosure Coordinator with an opportunity to review and comment before release.

2. Review of Presentations/Releases. The Disclosure Coordinator should review each such Presentation/Release to determine whether it could reasonably be Material to investors in Securities or other debt obligations and, if so, take steps to assure that the factual statements in the Presentation/Release are supported and appropriately qualified. The Disclosure Coordinator will forward his or her comments to the Public Information Officer and/or Director of Finance, as applicable, who will take such comments into account and obtain legal advice if appropriate, before releasing the Presentation/Release.

G. Training

1. Personnel to be Trained. Each member of the Disclosure Working Group, the Disclosure Coordinator, the Director of Finance, the Deputy Executive Directors, the General Counsel, the Web Manager, the Investor Inquiry Coordinator, the Public Information Officer and each person identified as a source of data for any Public Statement pursuant to this Debt and Disclosure Policy should undergo periodic training consistent with this Debt and Disclosure Policy.

2. Training Content. The training program and materials will be prepared by or with the assistance of Disclosure Counsel and approved by the General Counsel. The training program will include a description of (i) the requirements of federal and state securities laws, including the Securities Act, the Exchange Act, and Govt. Code Section 8855, and the applicable rules promulgated thereunder; (ii) the roles of the Municipal Securities Rulemaking Board and the CDIAC, (iii) the Disclosure Agreements, (iv) considerations in determining whether an issue is Material and (v) the duties of such persons under this Debt and Disclosure Policy.

3. Training Frequency. Each applicable person should undergo training (i) promptly after being appointed to his or her position and (ii) annually as necessary to address any changes in law or this Debt and Disclosure Policy.

H. Annual CDIAC Reporting Procedures

1. Govt. Code Section 8855 requires any issuer of public debt to provide to CDIAC a report of the proposed issuance no later than 30 days prior to the sale of any debt issue (Report of Proposed Debt Issuance) and a Report of Final Sale no later than 21 days after the sale of any debt issue. CDIAC provides online forms to submit information to CDIAC in compliance with these requirements. The Disclosure Coordinator should work with the General Counsel or his or her designee to assure timely filing of the required transaction-specific reports.

2. Additionally, pursuant to Govt. Code Section 8855, with respect to Reports of Final Sale filed after January 21, 2017, the Water Authority will have an ongoing obligation to file an annual debt report (the Annual Debt Transparency Report) on or before

January 31 for the reporting period beginning July 1 through June 30 (the Reporting Period) of the subsequent year, each year that the subject debt is outstanding or until the proceeds of such debt have been spent, whichever is later. The General Counsel, with the advice of Disclosure Counsel, and the Disclosure Coordinator, will work with the Water Authority to complete the annual debt transparency report and timely file it with CDIAC.

I. Updates to Policies and Procedures

1. Periodic Review. The Disclosure Policy should be reviewed annually by the Disclosure Coordinator and Disclosure Counsel. In addition, officers and employees of the Water Authority should be encouraged to make recommendations for changes to this Debt and Disclosure Policy at any time.

2. Recommendations for Change. Following receipt of any recommendation for updates to this Debt and Disclosure Policy, the Disclosure Coordinator should give his or her advice regarding the recommendation to the Disclosure Working Group. The Disclosure Working Group should consider the recommendation and advice, determine whether to propose a change to this Debt and Disclosure Policy and submit such proposal to the Director of Finance and the General Counsel.

3. Changes to Disclosure Policy. The General Manager, with advice from the Director of Finance, the General Counsel and Disclosure Counsel, may approve and implement any change to this Debt and Disclosure Policy that advances the goals of this Debt and Disclosure Policy. The Disclosure Coordinator will disseminate any modifications to this Debt and Disclosure Policy after receiving any such modifications.

J. Miscellaneous

1. Internal Use Only. This Debt and Disclosure Policy is intended for the internal use of the Water Authority only and is not intended to establish any duties in favor of or rights of any person other than the Water Authority.

2. Waiver of Procedures. The officers and employees charged by this Debt and Disclosure Policy with performing or refraining from any action may deviate from this Debt and Disclosure Policy when they and the Disclosure Coordinator in good faith determine that such deviation is in the best interests of the Water Authority and consistent with the duties of the Water Authority under federal and state securities laws and with approval of the General Counsel.