

Number: **BP 029**

Related Admin. Procedure AP 029

Authority: Board of Directors

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Initiating Dept./Div.: Administration/Finance



BOARD POLICY

DEBT MANAGEMENT AND CONTINUING DISCLOSURE

I. PURPOSE

The Government Finance Officers Association (GFOA) recommends¹ as a best management practice that state and local governments adopt comprehensive written debt management policies to improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital financial planning. Additionally, California SB 1029 requires public agency issuers of debt to adopt comprehensive written debt management policies pursuant to the GFOA recommendation, and to provide reports on any issuance prior to and after the debt sale, and on an ongoing basis, to the California Debt and Investment Advisory Commission (CDIAC).²

The purpose of this Debt Management and Continuing Disclosure Policy (Debt Policy) is to organize and formalize debt issuance and management related policies and procedures for the Central Contra Costa Sanitary District. This Debt Policy is applicable to both the District and the Central Contra Costa Sanitary District Facilities Financing Authority, both hereinafter referred to as “the District”. This Debt Policy is intended to comply with Government Code Section 8855(i). General Manager maintained procedures amplify and provide additional guidance to staff related to the Debt Policy. The debt policies and procedures of the District are subject to and limited by applicable provisions of State and Federal law.

This policy applies to all forms of debt as listed in Article X, TYPES OF DEBT.

¹ In their publication “Best Practice Debt Management Policy”

² https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB1029

II. POLICY OBJECTIVES

The primary objectives of the District's debt and financing related activities are the following:

- Maintain cost-effective access to the capital markets through prudent fiscal management policies and practices
- Specify parameters related to the prudent use of debt in the context of The District's rates and financial planning
 - Ensure debt proceeds are expenditures for permissible uses as defined in this policy, and in accordance with bond covenants and other applicable requirements
- Minimize debt service commitments through effective planning and cash management
- Ensure the District is compliant with all applicable federal and state securities laws
- Protect the District's creditworthiness and achieve the highest practical credit ratings; and
- Maintain the District's sound financial position.

III. SCOPE AND DELEGATION OF AUTHORITY

This Debt Policy will govern the issuance and management of all debt funded through the capital markets, including the selection and management of related financial and advisory services and products, and the investment of bond proceeds.

Overall policy direction of this Debt Policy will be provided by the District's Board of Directors (Board). Responsibility for implementation of the Debt Policy and day-to-day responsibility for structuring, implementing, and managing the District's debt and finance program will lie with the General Manager or designee (Deputy General Manager-Administration). The Board's adoption of the District's Annual Budget and Capital Improvement Program (CIP), or review of the financial plan, does not constitute authorization for debt issuance for any capital projects. This Debt Policy requires that the Board specifically authorize each debt financing.

While adherence to this Debt Policy is required in applicable circumstances, the Board recognizes that changes in the capital markets, District programs, and other unforeseen circumstances may from time to time produce situations that are not covered by the Debt Policy and will require modifications or exceptions to achieve policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained.

IV. ROLES AND RESPONSIBILITIES

- General Manager– Provides oversight of debt program and recommendations on debt to the Board.
- Executive Director of the Central Contra Costa Sanitary District Facilities Financing Authority – Provides oversight of debt program and recommendations on debt to the Board.
- Deputy General Manager - Administration and the Finance Manager– Has primary responsibility for debt issuance recommendations, financing transaction execution, oversight of bond proceeds expenditures, and ongoing debt management.
- Board of Directors – Sets debt policy and authorizes individual transactions.

V. ETHICS AND CONFLICTS OF INTEREST

Staff and Board involved in the debt management program will not engage in any personal business activities that could conflict with proper and lawful execution of securing capital financing and are to comply with the District's Conflict of Interest Code.

VI. INTEGRATION WITH OTHER FINANCIAL POLICIES AND DOCUMENTS

The District is committed to long-term capital and financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. Policies related to these topics are adopted separately but affect this Debt Policy in the context of the overall long-term financial plan. The Board shall be presented with the results of the long-term financial plan in contemplation of any proposed rate adjustment where the capital budget, financial policies, proposed debt issuances and resulting debt service are presented as elements contributing to the calculation of overall projected customer rates.

VII. DEFINITIONS

The following are definitions of key terms used throughout and necessary to understanding this policy:

- *Bond Covenant* – Essential agreement clauses between the bond issuer and investors. They are a set of legally binding rules that ensure debt securities adhere to the anticipated terms and conditions of repayment with investors/lenders.

- *Bond indenture* – A contract between the issuer and bond trustee that describes information related specifically to the issuance or usage of bonds. It specifies the important features of a bond, such as maturity date, timing of interest payments, method of interest calculation, callability, debt covenants, etc.
- *Continuing disclosure* – Disclosures intended to assist investors in determining the suitability of a bond, as well as potential risks associated with the credit of the state or local government. Such disclosures are generally filed at least annually on the Electronic Municipal Market Access (EMMA) portal maintained by the Municipal Securities Rulemaking Board (MSRB).
- *Coupon rate* – The annual interest rate paid on a bond, paid from issue date through maturity.
- *Financial advisor* – Also referred to as a “municipal advisor”, a consultant with a fiduciary duty to a debt issuer, which provides advice with respect to the structure, timing, terms or other similar matters concerning a bond issuance.
- *Issuance discount* – The amount by which the market price of a bond is lower than its principal due at maturity. Bonds are sold at a discount when the market interest rate exceeds the coupon rate of the bonds.
- *Issuance premium* - The amount by which the market price of a bond is higher than its principal due at maturity. Bonds are sold at a premium when the market interest rate falls short of the coupon rate of the bonds.
- *Official statement* – A document used by an underwriter to sell bonds to potential buyers which describes the essential terms of the bonds. It is the counterpart of the prospectus in the corporate finance industry.
- *Par value (of bonds)* – Also referred to as “face amount” or “face value,” it is the amount of money that bond issuers agree to pay the investor of bonds at maturity. It is fixed at the time of issuance, and unlike market value, does not change.
- *Underwriter* – A firm or group of firms that purchase bonds directly from a bond issuer and resells them to investors. Underwriters are intermediaries between issuers and investors. Unlike municipal advisors, they do not serve as a fiduciary to the debt issuer.
- *Trustee (bond)* – A financial institution that is granted trust powers, such as a commercial bank or trust company. This entity, in turn, has a fiduciary duty to the bond issuer to enforce the terms of a bond indenture. A trustee ensures that

bond interest payments and principal repayments are made as scheduled and protects the interests of bondholders if the issuer defaults.

VIII. STANDARDS FOR USE OF DEBT FINANCING

In financial planning, the District will evaluate the use of various alternatives including current year funding of capital projects through rates, various forms of debt financing, use of reserves, and inter-fund borrowing. The District will utilize the most advantageous financing alternative balancing the goals of long-term cost minimization, risk exposure, and compliance with generally accepted ratemaking principles. The District's debt management program will consider debt issuance where public policy, equity (including intergenerational equity), general ratemaking principles, economic efficiency and compliance with long-term financial planning parameters favor financing over cash funding.

A. Use and Timing of Debt

The District shall integrate its debt issuances with the goals of its Capital Improvement Program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes (as articulated in, inter alia, the District's mission, vision, and goals) and are consistent with the rate and financial planning parameters specified in the District's long-term financial plans. The Board shall be presented with a long-term financial plan in each instance Sewer Service Charge rates are to be adjusted.

1. The long-term financial plans will specify an expected debt issuance amount over a decade or more long-term planning horizon.
 - a. The District shall target rate or tax revenue funding of, at a minimum, the value of the collection system replacement program (specifically, pipeline replacement) component of the CIP.
 - b. Not more than 60 percent of the overall CIP shall be financed with debt, absent extraordinary circumstances that would result in unreasonably high rate increases and intergenerational inequities due to the need to fund major regulatorily mandated projects, and a finding by the Board of these conditions.
2. All projects in the CIP are eligible to use debt financing, so long as the minimum rate or tax revenues are generated as described in A.1 of this section.

This policy does not contemplate the use of debt financing to fund ongoing operating & maintenance expenditures; exceptions beyond a de-minimis amount would require approval of the Board.

With respect to debt repayment and amortization, the debt repayment period should be structured so that the weighted average maturity of the debt does not

exceed 100 percent of the expected average useful life of the project being financed.

B. Credit Quality

All District debt management activities for new debt issuances will be conducted in a manner conducive to receiving the highest credit ratings possible consistent with the District's debt management objectives.

As debt service coverage is a key ratings consideration, the District shall target a debt service coverage level of at least 2.0x or greater for financial planning and ratemaking purposes.

C. Ongoing Debt Administration and Internal Controls

The District will maintain all debt-related records according to the District's Retention Policy. The District will maintain internal controls to ensure compliance with the Debt Policy (including use of bond proceeds for purposes specified in the applicable Bond Official Statements and in compliance with this debt policy), all debt covenants and any applicable requirements of Federal and State law, including but not limited to the following: initial bond disclosure, continuing disclosure, tax-exemption, post-issuance compliance, investment of bond proceeds (including, for example, any continuing disclosure obligations under Securities and Exchange Commission (SEC) Rule 15c2-12, and tax covenants, and related federal tax compliance requirements such as arbitrage restrictions and rebate requirements), and annual transparency reporting to CDIAC. These internal controls are further specified in the related Debt Management and Continuing Disclosure (AP 029).

D. Rebate Policy and System

The District will develop a system of reporting interest earnings that relates to and complies with Internal Revenue Code requirements relating to rebate, yield limits and arbitrage. The District will accurately account for all interest earnings in debt-related funds to ensure that the District is compliant with all debt covenants and with state and federal laws. The District will invest funds in accordance with the investment parameters set forth in each respective bond indenture, and as permitted by the District's Statement of Investment Policy (BP 005).

IX. FINANCING CRITERIA

When District staff determines the use of debt is appropriate, staff shall provide a report to the Board that:

- describes the intended use of the financing proceeds (funding for new projects or to refund existing bonds);

- recommends a specific debt type to include duration, type, interest rate characteristics, call features, credit enhancement or financial derivatives to be used in the transaction
- presents the impact of the bonds on the District's forecasted rates based on the anticipated maturity schedule.

For refunding transactions, a comprehensive report on the debt to be redeemed, the replacement debt, and the anticipated benefits of the transaction shall be provided.

X. TERMS AND CONDITIONS OF DEBT

The District will establish all terms and conditions relating to the issuance of debt, and will control, manage, and invest all debt proceeds. The District staff will specify to the Board proposed debt terms, coupon structure, debt service structure, redemption features, any use of capitalized interest, and lien structure.

XI. TYPES OF DEBT

The following types of debt are allowable under this Debt Policy, subject to applicable law, and the District's statutory authority to issue debt:

- General obligation bonds
- Commercial paper
- Bond or grant anticipation notes
- Lease revenue bonds, certificates of participation and lease-purchase transactions
- Revenue Bonds (including new money issuances through a Joint Powers Authority), or refunding Revenue Bonds issued directly by the District.
- Other revenue bonds, including private placement obligations
- Tax and revenue anticipation notes
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- Refunding Obligations
- State Revolving Fund Loans
- Lines of Credit
- Letters of Credit
- The Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

The use of certain derivative products to hedge variable rate debt, such as interest rates swaps, may be considered to the extent the District has such debt outstanding or under consideration. The District shall exercise extreme caution in the use of derivative

instruments for hedging purposes and may consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed. A comprehensive derivative policy shall be adopted by the District prior to any utilization of such instruments.

XII. CREDIT ENHANCEMENTS

The District may consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings or other measurable advantages can be shown will enhancement be considered and authorized.

XIII. REFINANCING OUTSTANDING DEBT

The District will periodically evaluate outstanding bond issues for refunding opportunities and will bring to the attention of the Board those opportunities that are in the District's interest. Reports to the Board on potential refunding shall describe anticipated savings and the structure of refunding and refunded debt, and any refunding transaction executed will be followed with a report on actual savings.

XIV. METHODS OF ISSUANCE

District bonds may be sold on a competitive or negotiated basis (including private placement). A recommendation regarding the proposed use of either method shall be prepared by staff and provided to the Board prior to or concurrent with the proposed issuance.

XV. MARKET RELATIONSHIPS

A. Rating Agencies and Investors

The General Manager or designee (Deputy General Manager - Administration) will be responsible for maintaining the District's relationships with rating agencies, which will typically include two or more of the nationally recognized statistical rating agencies.

B. Board Communication

The General Manager will make available to the Board any ratings report or other relevant feedback provided from rating agencies and/or investors regarding the District's financial strengths and weaknesses and recommendations for addressing any weaknesses.

C. Continuing Disclosure

The District will remain in compliance with SEC Rule 15c2-12 addressing continuing disclosure obligations. The District will also comply with state

reporting requirements specified in SB 1029, which require initial and ongoing debt reporting requirements for California public agencies.

D. Rebate Reporting

The use and investment of bond proceeds shall be monitored to ensure compliance with arbitrage restrictions.

E. Other Jurisdictions

From time to time, the District may issue bonds to fund projects that provide a benefit to other public entities, (e.g. City of Concord). The District will conduct such analyses as deemed necessary to assure adequate cost recovery for such funding and to mitigate risks to the District (including consideration of the use of limited bonding capacity).

The District may participate in a joint powers authority with one or more other eligible entities pursuant to Section 6500 of the California Government Code if deemed advantageous and appropriate and approved by the Board.

XVI. CONSULTANTS

A. Selection of Financing Team Members

The General Manager or designee will make recommendations for all financing team members, with the Board providing final approval. Financing team members may include a financial advisor, bond counsel, disclosure counsel (which may be the same firm as bond counsel), and underwriter. Selection of those financing team members shall be in accordance with Professional Service and Consultant provisions of the District's procurement policies, and consistent with Chapter 2.36 "Purchasing and Materials Policy" of the District Code. In the event of a competitive bond sale, the District's debt will be offered to the underwriter providing the most cost advantageous proposal to the District.

B. Financial Advisor

The District may utilize a financial advisor to assist in its debt issuance and debt administration processes as is deemed prudent and necessary by management and in compliance with MSRB regulations.

C. Bond Counsel

District debt will include a written opinion by legal counsel affirming that the District is authorized to issue the proposed debt and that the District has met all constitutional and statutory requirements necessary for issuance and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues.

D. Disclosure Counsel

The District may utilize a separate firm to serve as disclosure counsel as it deems necessary. If cost effective, bond counsel may also serve as disclosure counsel.

E. Underwriter

The District will have the right to select a senior manager for a proposed negotiated sale, as well as co-managers and selling group members, as appropriate.

F. Conflict of Interest Disclosure by Financing Team Members

All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements will be permitted which could compromise the firm's ability to provide independent advice that is solely in the District's interests (to the extent the firm's role involves a duty to do so) or which could reasonably be perceived as a conflict of interest.

XVII. INITIAL AND CONTINUING DISCLOSURE COMPLIANCE

A. Disclosure Coordinator and Overall Requirements for Initial and Continuing Disclosure

The Deputy General Manager - Administration (or as designated, the Finance Manager) for the District shall be the disclosure coordinator of the District (Disclosure Coordinator). The Disclosure Coordinator shall perform the following functions:

- Ensure that any Official Statement meets appropriate standards and is approved by the Board as required.
- Ensure that initial and continuing disclosure obligations undertaken by the District related to each debt issuance are met, including State of California requirements, and MSRB requirements that the District commits to undertake in the Continuing Disclosure Certificate or Agreement over the life of the bonds to investors.
 - Initial Disclosure requirements include preparation of the Bond Official statement and reports on the issuance to the CDIAC.
 - Ongoing disclosure requirements include annual reports with the MSRB EMMA system and the CDIAC.

XVIII. EXCEPTIONS

In the event there are any deviations or exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the staff reports when the bond proposal is agendaized for Board consideration.

XIX. POLICY CONSIDERATION

This policy shall be reviewed on a biennial basis. Any changes must be approved by the Board, as well as the individual(s) charged with maintaining internal controls.

[Original retained by the Secretary of the District]