Calleguas Municipal Water District

Debt Management Policy

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Finance Department

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Introduction and Purpose of Policy

The Calleguas Municipal Water District (the "District") has established this Debt Management Policy to document the District's goals and guidelines for the use of debt instruments to finance District water projects and other financing needs. The District recognizes the need to invest in ongoing capital replacement and rehabilitation of its facilities, as well as new infrastructure, to ensure future viability of services, and that debt is often an appropriate method to meet the District's capital financing needs.

The District expects to pay for infrastructure and other capital expenditures from a combination of current revenues, available financial reserves, and prudently issued debt. The District recognizes that debt can provide an equitable and cost-effective means of financing the major infrastructure, capital asset and project needs of the District for the benefit of its customers. Debt will be used to meet financing needs if, 1) it meets the goals of equitable treatment of all customers, both current and future; 2) it is cost-effective and fiscally prudent under the prevailing economic conditions; and 3) there are other important policy reasons therefor.

This policy formalizes the District's debt management objectives, prescribes parameters for issuing debt and establishes guidelines for the on-going administration of the District's debt portfolio. This policy is also designed to:

- Establish a systematic and prudent approach to debt issuance and debt management;
- Improve the decision-making process and the quality of decisions, by instituting sound practices that promote objectivity, rationality and consistency in decision-making;
- Facilitate the financing process by Identifying the objectives to be achieved by staff, both pre- and post-issuance;
- Demonstrate the District's commitment to financial health and long-term financial planning

This policy is intended to provide guidelines to decision makers but retains sufficient flexibility to allow for exceptions under certain conditions. The District will regularly review the Debt Management Policy and will make revisions or amendments as appropriate or desirable.

Debt Management Objectives

The District's overriding goal in issuing debt is to respond to and provide for the needs of its customers while maintaining its fiscal responsibilities. The District executes debt instruments and makes debt service payments, acting with prudence and diligence, with attention to prevailing economic conditions. This policy documents the District's goals for the use of debt instruments and provides guidelines for the use of debt for financing District needs.

The District's debt management objectives are to:

- Finance capital projects in a timely and cost-effective manner;
- Maintain access to debt capital markets and cost-effective borrowing;
- Minimize debt service and issuance costs;
- Achieve and maintain the most favorable credit ratings that will allow the District to achieve its goals while also minimizing borrowing costs;
- Ensure the full and timely repayment of debt; and
- Maintain compliance with all relevant laws, reporting and disclosure requirements related to the issuance and post-issuance management of debt.

As noted, an important goal of the District is to maintain its high credit ratings by the primary bond rating agencies. These ratings reflect upon the general reputation of the District and its management. By maintaining high credit ratings, the District can issue its debt at lower interest rates as compared to entities with lower ratings.

The District will also seek to minimize borrowing costs by taking advantage of favorable economic conditions. Timing debt issuance to accommodate market interest rates and investor sentiment is an important means of minimizing the cost of debt and the financial burden on the system users. To accomplish this, the District will seek input on market conditions from financial consultants who closely monitor the financial markets.

All District debt must be approved by the Board of Directors ("Board"). Further, the District will adhere to the following legal requirements for the issuance of public debt:

- The Municipal Water District Act of 1911 (the "Water Law"), which established the powers of the District;
- State law, which authorizes the issuance of the debt;
- The federal and state tax laws, which govern the eligibility of the debt for tax-exempt status;
- The federal and state securities laws, which govern disclosure, sale, and trading of the debt.

Purpose and Use of Debt

The District may finance the acquisition or construction of projects and capital assets through the issuance and sale of short-term and long-term municipal securities. Debt financings are not to be used to fund District operating costs. A prerequisite for the approval of a project for funding by debt is that it satisfies needs of the District, as determined its Board of Directors.

Long-Term Debt

Long-term debt may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over multiple budget years, attempting to match the useful life of the assets acquired by the financing. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term borrowing shall not be used to fund operating costs. Long-term debt or bonds may be issued as fixed or variable rate debt.

Short-Term Debt

Short-term debt with either fixed or variable rates, such as notes, commercial paper, lines of credit and other short-term products, will be considered as an interim source of funding to be utilized when appropriate. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs.

Refinancings/Refunding of Existing Debt

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations. The Manager of Finance along with the District's financial advisor shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting firms. See Refinancing of Outstanding Debt for further details on the District's considerations when analyzing possible refunding opportunities.

Permitted Debt by Type

There are many several different types of financing instruments available to the District. The District's selection among available financing instruments depends on legal constraints, investor demand, capital market activity and the type of project being financed. The following are brief summaries of different types of financing instruments that are permitted by the District. The Manager of Finance will determine the most appropriate instrument for a proposed bond sale in consultation with the District's financial advisor and where appropriate, bond counsel. All debt issued by the District and associated agreements must be approved in advance by the Board of Directors.

Water Revenue Bonds

Water Revenue Bonds are issued by the District's Water System (including the Salinity Management Pipeline) to finance capital projects. The revenues generated by the System must be sufficient to cover the debt repayment and interest. Water Revenue Bonds will be payable solely from the District's water revenues. When the District finances capital projects by issuing revenue bonds, the term of the bonds will not exceed the expected life of those projects.

Certificates of Participation (COPs)

Certificates of Participation are a widely used type of debt instrument that allows the District to finance capital projects/public facilities/equipment where the COPs holders are repaid principal and interest through revenues generated from the project or by the District's agreement to lease the facilities or equipment. Debt service on COPs is subject to annual appropriation by the District. For COPs issued in connection with financing of certain equipment purchases or other assets, the interest and principal repayment is budgeted in each year's operating budget until the obligation is repaid.

Joint Powers Authority (JPA) Revenue Bonds

The District may obtain financing through the issuance of debt under a joint exercise of powers agreement with such debts payable from amounts paid by the District under a lease, installment sale agreement, or contract of indebtedness.

State Revolving Fund Loans

From time to time, the District may enter into contracts with the State of California for the purpose of funding a project. The State Revolving Fund ("SRF") Loan Program is a low interest loan program generally for the construction of water and wastewater infrastructure projects. Revenue pledged to repay loans made by the State will be on parity with existing debt.

Joint Ventures Arrangements with Other Governmental Agencies

When a project serves the public interest beyond its boundaries, the District may seek out joint venture arrangements where other governmental bodies share the debt burden. Joint Venture debt is repaid through revenues generated by the project. The District will only be liable for its share of debt service, as specified by contract.

Lines and Letters of Credit

Where their use is prudent and advantageous to the District, the District has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the District with access to credit under terms and conditions as specified in such agreements, and/or to provide a liquidity facility or credit enhancement to the District's variable rate debt issues. Before entering into any such agreements, takeout financing for such lines or letters of credit must be planned for and determined to be feasible by the Manager of Finance.

Bond Anticipation Notes

Where their use is prudent and advantageous to the District, the District may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, takeout financing for such notes must be planned for and determined to be feasible by the Manager of Finance.

Commercial Paper

The District may choose to issue short-term revenue certificates, including commercial paper and extendable commercial paper. The District may issue notes like commercial paper as a source of interim construction financing for projects contained in the District's approved CIP only after it has been determined that such financing represents the least cost interim financing option for the District.

Other

The District may choose to issue various types of debt other than those noted in this policy such as Green Bonds and other federal bonds or loans that may be available (including Tax Credit Bonds and Water Infrastructure Finance and Innovation loans).

Debt Limits

The District's legal requirements and bond resolution limitations that place constraints on debt issuance include:

- Additional Bonds Test: The District as covenanted in the Master Resolution to not issue any additional parity bonds unless net revenues for the preceding 12 months or the first complete fiscal year of new system improvements are at least 1.25 times the maximum annual debt service.
- Rate Covenant: The District has covenanted to collect rates to provide net operating revenues at least sufficient to pay 1.25 times the principal and accreted value of (if any), and interest on, all outstanding parity obligations.

The District will also be mindful of its overall debt burden in the context of its revenues, expenses, reserves, and overall financial health.

Relationship to District Budget and Capital Improvement Program

The District is committed to long-term financial and capital planning. The District establishes its water rates in conjunction with its annual budget and long-range financial plan to ensure that the long-term financial goals of the District are met. The District sets water rates to pay for operations, maintenance and to provide for a portion of the costs of the District's Capital Improvement Program ("CIP"). The District's CIP is continually reviewed and updated by staff and the Board of Directors. Implementation and construction of specific elements of the CIP are subject to Board approval, and the amount and timing of debt borrowing will depend upon, among other factors, capital market conditions, status of construction activity and water demands within the District's service area.

Debt Issuance Practices

The Manager of Finance coordinates the administration and issuance of debt and is responsible for selecting the Financing Team (described later in this document) and for the accuracy of disclosure and other bond related documents. In addition to the Manager of Finance, members of the management team may serve on the financing team, along with any other finance staff member appointed by the Manager of Finance. The Finance Department will coordinate the issuance of all debt, including issuance size, debt structuring, pledging of repayment sources and method of sale. All borrowing requests or debt refunding proposals are to be communicated to and coordinated by the Manager of Finance.

The Manager of Finance, working with District Counsel, will manage any legal activities that may arise with respect to issuance of the debt. Furthermore, after the bonds are issued, the District (acting through the Manager of Finance) will be ultimately responsible for:

- Supervising, investing and administering the expenditure of construction bond proceeds;
- Collecting, or monitoring the collection of, revenues;
- Applying pledged revenues to pay operating expenses and debt service;
- Complying with all undertakings, covenants and agreements;
- Filing of any reports required with various governmental regulators, a bond insurer or other credit enhancement provider, if any, and the credit rating agencies;
- Addressing any problem that may arise with respect to the debt, such as a shortfall in revenues, a tax audit, or a regulatory issue;
- Preparing, reviewing, and filing Annual Reports and Material Event Notices under SEC Rule 15c2-12.

Debt Structure

The District will determine the appropriate structure for proposed debt financings by considering factors including, but not limited to, the inter-generational benefit of the financing and current market conditions. The District will structure its debt issues in consideration of the following features, as appropriate. Individual features may change as dictated by the marketplace and/or the unique characteristics of a given transaction.

— Term: Debt will be structured for a period consistent with a fair allocation of costs to current and future users. The District will also consider the useful life of the assets being financed and the depreciation schedule relating to the financed assets. The District shall issue debt with an average life less than or equal to the average life of the assets being financed and the final maturity of the debt should be no longer than 40 years.

— Debt Service Structure: In structuring a bond issue, the District will manage the amortization of the debt and, to the extent possible, match its cash flow to the anticipated debt service payments.

In addition, the District will seek to structure debt with aggregate level debt service payment over the life of the debt. A non-level debt service structure will be considered if it is beneficial to the District's overall debt payment schedule, or if such structuring will allow debt service to more closely match project revenues during the early years of a project's operation.

— Interest Rate Structure: To maintain a predictable debt service burden and rate structure, the District may give preference to debt that carries a fixed interest rate. The District, however, may consider variable rate debt, especially in periods of high interest rates, or when the revenue stream for repayment is variable. The District should limit the use of variable rate debt to an amount no greater than 25% of its total outstanding debt.

— Credit Enhancement: The District will consider the use of credit enhancement on a case-by-case basis. Types of credit enhancement include letters of credit, bond insurance, and surety policies. Credit enhancement shall be issued only when clearly demonstrable savings can be realized.

— Debt Service Reserve Fund: The District will fund debt service reserve funds when it is in the District's overall best financial interest. In lieu of holding a cash funded reserve, the District may substitute a surety bond or other credit instrument in its place. Additionally, the District may decide not to utilize a reserve fund if the District's Financing Team determines there would be no adverse impact to the District credit rating or interest rates.

— Redemption Provisions: In general, the District's securities should include optional call provisions. The District will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option. For each transaction, the District will evaluate the efficiency of call provision alternatives.

Method of Sale

The District will select the method of sale, which best fits the type of bonds being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

— Competitive Sale: Bonds will be marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on the best bid (highest price) for its securities. The District will award the sale of the competitively sold bonds on a true interest cost (TIC) basis. Pursuant to this policy, the Manager of Finance, is hereby authorized to sign the bid form on behalf of the District, fixing the interest rates on bonds sold on a competitive basis.

— Negotiated Sale: In a negotiated sale, the underwriter or underwriting syndicate is selected through a Request for Proposal (RFP) process. The interest rate and the underwriter's fee are negotiated prior to the sale, based on market conditions. The underwriter will actively assist the

District in structuring the financing and marketing of bonds including providing assistance in preparing the bond offering document.

— Private Placement: The District may elect to issue debt on a private placement basis. A private placement is a capital raising event in which a bank, or a limited number of accredited investors, purchase a bond directly from an issuer.. Such method may be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that financing be completed.

Credit Objectives

Credit Ratings

The Calleguas Municipal Water District seeks to maintain the highest possible credit ratings for all categories of short- and long-term debt that can be achieved without compromising delivery of basic services and achievement of adopted policy objectives. Each proposal for additional debt will be analyzed for its impact upon the District's debt rating. The District recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the District is committed to ensuring that actions within its control are prudent. By maintaining high credit ratings, the District can issue its debt at lower interest rates as compared to entities with lower ratings. Also, the ratings reflect upon the general reputation of the District and its management.

Debt Service Coverage Target

The District will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in acceptable debt service coverage ratios. In determining the affordability of a proposed financing, the District will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance (O&M expense) to estimated annual debt service. This ratio is called the debt service coverage ratio ("DCR"). DCR measures the amount of cash flow available to meet annual interest and principal payments on debt.

The District's objective is to maintain a DCR at or above 1.25 times to maintain its high quality credit rating.

Rating Agency Relationships

The District will maintain strong communications with bond rating agencies about the District's financial condition. The Manager of Finance shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the District's debt obligations. This effort shall include providing periodic updates, both formal and informal, on the District's general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance. The District will strive to maintain or improve the District's bond ratings.

Bond Ratings

The Manager of Finance, in consultation with the Financing Team, shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating. In order to secure a rating, the District will prepare a comprehensive presentation to the bond rating agencies covering the topics necessary for the rating analysts to assess the District's creditworthiness. Topics to be discussed include economic conditions related to the stability and reliability of sources for debt repayment; the District's reserve levels; the

District's debt history and current debt structure; the District's fiscal responsibility; and the District's general management capabilities.

Financial Disclosure

The District is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, District departments, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The District is committed to meeting secondary market disclosure requirements (that is, required disclosure by or on behalf of an issuer following the initial issuance of municipal securities of information material to an investment decision relating to such securities) on a timely and comprehensive basis.

The Manager of Finance will be responsible for providing ongoing disclosure information to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies. The District may also employ the services of firms that improve the availability of or supplement the District's disclosure filings.

Official statements accompanying debt issues, Financial Reports, and continuing disclosure statements will meet (at a minimum), the standards set forth by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP).

Refinancing Outstanding Debt

The Manager of Finance along with the District's financial Advisor shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting firms. The District will consider the following issues when analyzing possible refunding opportunities:

Debt Service Savings

The District will refund debt when it is in the best financial interest of the District to do so. The District shall evaluate each refunding opportunity based on net present value savings, which shall take into account foregone interest earnings, all costs related to the refinancing, and arbitrage implications.

The decision to take savings on an upfront or deferred basis must be explicitly approved by the Manager of Finance.

Debt Restructuring

The District will only consider debt restructuring (for example, a refunding may be used to restructure the District's debt service to achieve a budget objective such as recognizing savings in the earliest maturities) when it can be demonstrated that a proposed structure will assist the District in meeting at least one of several goals, including: meeting unanticipated revenue expectations, achieving interest cost savings, mitigating irregular debt service payments, releasing reserve funds, or removing restrictive bond covenants.

Term of Refunding Issues

The District will typically refund bonds within the term of the originally issued debt. The District may consider maturity extension only when necessary to achieve a desired outcome, provided that such extension is legally permissible. The District may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

Arbitrage

The District shall take all necessary steps to minimize negative arbitrage in a refunding transaction, including evaluating the risks and benefits of an economic versus legal defeasance (in an economic defeasance, the defeasance requirements of the refunded bonds are met by the refunding bonds which means the refunding bonds may remain on an issuer's balance sheet, while in a legal defeasance, the lien on the assets/revenues pledged to pay debt service on the refunded bonds is released and the refunded bonds are removed from an issuer's balance sheet and are no longer considered outstanding).

Financing Team – Roles and Responsibilities

Authority and Responsibility

The Manager of Finance shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the District's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The identification of team members will be accomplished through a qualifications-based selection process conducted by the Finance Department and may also be based upon recommendations from advisors that are specifically skilled in the type of debt issue being proposed.

Professional Services Support

One of the first decisions to be made by the District is the selection of the initial members of its debt financing team, including bond counsel and either a financial advisor or underwriter or both. The nature of the team members may depend upon several factors, including the type of debt being issued, procedural requirements for that type of debt, and the level of in-house sophistication of the issuer. The District's Ordinance No. 18, Covering the Authority of Officers to Execute Contracts and Instruments, establishes approval authority for professional services.

The District will maintain professional service agreements with qualified professionals related to the issuance and management of debt, including but not limited to:

Bond Counsel

The District will retain external Bond Counsel for all debt issues. As part of its responsibility to oversee and coordinate the marketing of all indebtedness, the Manager of Finance shall make recommendations to the Board regarding the selection of Bond Counsel to be employed and the duration of the employment for individual or a series of financings. The Board shall make such selection, taking into consideration these recommendations. Bond Counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the District will include a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. Bond Counsel may also prepare the disclosure documents (Official Statement) for a financing.

Disclosure Counsel

The District may choose to retain a separate Disclosure Counsel. The role of Disclosure Counsel is to provide advice to the issuer with respect to disclosure obligations and to prepare the disclosure document (Official Statement) and/or continuing disclosure agreement.

Municipal Advisor

The District will select a municipal advisor for all transactions to be sold on a competitive basis and may select a municipal advisor for bonds sold on a negotiated basis. The primary responsibilities of the municipal advisor are to advise and assist with the debt structuring, call provision options, rating and issuance of debt, timing of issuance, and generally act as an independent financial consultant and economic market expert.

Trustee and Paying Agent

When appropriate, the District shall periodically solicit for trustees and paying agent services from qualified commercial and trustee banks. The selection of shall be based on the cost of providing such services, along with other qualitative measurements.

Other Service Providers

Other professionals may be selected on an as-needed basis. These include but are not limited to the services of bond insurers, rating agencies, escrow agent, escrow bidding agent, verification agent, internet road show (an online presentation by an issuer designed to provide investors with information about a municipal offering) provider, and printer.

Underwriters

The Manager of Finance shall solicit proposals for underwriting services for all debt issued in a negotiated or private placement sale mode.

The underwriting syndicate is a firm or a group of firms that will purchase all of the bonds and then resell them to investors. The criteria used to select an underwriter in a competitive sale shall be the true interest cost. For all negotiated sales, underwriter(s) will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed. In a negotiated sale, the Manager of Finance will recommend to the District Board the selected underwriter(s). The Manager of Finance will consider the following criteria in selecting an underwriter(s):

- Overall experience
- Marketing philosophy and distribution capability
- Previous experience as managing or co-managing underwriter
- Financial strength, as evidenced by the firm's current financial statement

- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Total overall cost including underwriter's discount

The selection of underwriter(s) may be for an individual or series of financings or a specified time period. The Board shall make such selections taking into consideration the recommendations of the Manager of Finance.

Compensation for Services

Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as low as possible, given desired qualification levels, and consistent with industry standards. All costs and fees related to issuance of bonds will be paid out of bond proceeds. Payments will be authorized by the Department of Finance on a case-by-case basis depending on the nature and complexity of the transaction.

Post-Issuance Administration / Internal Control Procedures

The Finance Department will be responsible for post-issuance debt administration activities, particularly the investment of bond proceeds, monitoring compliance with bond covenants, implementing internal control procedures to ensure the use of proceeds of bonds or other debt will be directed to the intended use, monitoring use of facilities financed with tax-exempt debt, continuing disclosure, and monitoring arbitrage compliance for tax-exempt debt.

The District's detailed procedures to ensure compliance with the requirements for tax-exempt bonds can be found in Attachment A.

Investment of Proceeds

The proceeds of bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of: 1) safety, 2) liquidity, and 3) yield, and may be held as cash. The District's investment guidelines and bond indentures will govern objectives and criteria for investment of bond proceeds. The Finance Department will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

Use of Proceeds

Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not comingled with other District funds. The District's Trustee will administer the disbursement of bond proceeds pursuant to each certain Indenture of Trust or Fiscal Agent Agreement, respectively. To ensure proceeds from bond sales are used in accordance with legal and tax requirements, invoices are submitted by the Engineering Department and approved by the Finance Department for payment. Requisition for the disbursement of bond funds will be approved by the Manager of Finance.

The Finance Department will be tasked with monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the District will meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be demonstrated that 85% of the proceeds can reasonably be expected to be expended within the IRS' three-year temporary investment period (which begins on the date the bonds are issued and ends three years later).

Arbitrage Compliance

The Finance Department shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the District's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with.

Compliance with Bond Covenants

The District is responsible for verifying compliance with all undertakings, covenants, and agreements of each debt issue on an ongoing basis. This typically includes ensuring:

- Annual appropriations of revenues to meet debt service payments
- Timely transfer of debt service payments to the Trustee
- Compliance with insurance requirements
- Compliance with rate covenants

The District shall comply with all covenants and conditions contained in the governing law and any legal documents entered into at the time of the bond offering or signing of agreements. The Manager of Finance or designee will coordinate verification and monitoring of covenant compliance.

Review of Unsolicited Financing Proposals

Any capital financing proposal or refunding proposal made to the District involving a pledge or other extension of the District's credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the District's credit shall be referred to the Finance Department.

The Finance Department shall be responsible for analyzing the proposal, responding to the proposal, and recommending to the District Board if in the opinion and judgment of the Manager of Finance the proposed financing request is beneficial to the Calleguas Municipal Water District and complies with the District's long-term financial plan.

Continuing Disclosure

The District shall remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders by December 31st of each year. The Manager of Finance will ensure the District's timely filing with each Nationally Recognized Municipal Securities Information Repository (NRMSIR).

The Finance Department, with the assistance of professional support, will produce all the necessary documents for disclosure. All debt issues will meet the disclosure requirements of the SEC and other government agencies before and after the bond sales take place. The purpose of the SEC requirements is to deter fraud and manipulation in the municipal securities market. The disclosure documents, particularly the Official Statement, will provide the potential investor with full and accurate information necessary to make prudent investment decisions. Information generally includes the District government description, comprehensive annual financial data, its customer base, current debt burden, history of revenue collection and bond repayment, future borrowing plans, and the source of funds for the proposed debt repayment, as well as specific bond data.

The District will also provide ongoing disclosure on the status of the following material events, as obligated:

- Principal and interest payment delinquencies
- Nonpayment-related defaults
- Unscheduled draws on reserves
- Unscheduled draws on credit enhancements
- Substitution of credit or liquidity providers, or the failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to rights of security holders
- Bond calls
- Defeasances
- Matters affecting collateral
- Rating changes

Record Retention

A copy of all debt-related records shall be retained at the District's offices. At minimum, these records shall include all official statements, bid documents, bond documents / transcripts, resolutions, trustee statements, leases, and title reports for each District financing (to the extent available). Electronic copies shall also be retained.

Annual Audit of the District

The annual audit of the District shall describe in detail all funds and fund balances established as part of any direct debt financing of the District. The audit may also contain a report detailing any material or rate covenants contained in any direct offering of the District and whether or not such covenants have been satisfied.

Policy Review

On an as needed basis, the Manager of Finance will be responsible for updating and revising this Policy which shall be reviewed at a Board Meeting and adopted by the Board of Directors.

Attachment A - Post-Issuance Compliance Procedures for Tax-Exempt Bonds

I. PURPOSE

To establish and document procedures for the District to ensure that it is in compliance with requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied with respect to tax-exempt bonds and other obligations (the "Bonds") after the Bonds are issued so that interest on the Bonds are and will remain tax-exempt.

II. RESPONSIBILITY

The Manager of Finance shall have final responsibility for all matters relating to the District's financings and refinancings with regard to monitoring whether the District is in compliance with post-issuance federal tax requirements for its tax-exempt bonds. The Manager of Finance shall be responsible for ensuring an adequate succession/training plan for transferring post-issuance compliance responsibility when changes in staff occur.

III. External Advisors/Documentation

The Manager of Finance, to the extent necessary, will consult with bond counsel and other legal counsel and advisors following issuance of the Bonds to ensure that all applicable post-issuance requirements are met. Such consultation will include, without limitation, questions about future contracts with respect to the use of Bond-financed or refinanced assets.

The Manager of Finance will from time to time engage external advisors (each a "Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds as required under the Code.

The Manager of Finance shall prepare (or cause to be prepared) regular, periodic statements regarding the investments and transactions involving Bond proceeds.

IV. 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 debt, the Manager of Finance, shall be responsible for:

- Engaging the services of a Rebate Service Provider and, prior to each rebate calculation date, causing the trustee or other account holder to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider;
- Providing to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

- Monitoring efforts of the Rebate Service Provider;
- Assuring 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;
- During the construction period of each capital project financed in whole or in part by Bonds, monitoring the investment and expenditure of Bond proceeds and 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 issue date of the Bonds; and
- Retaining copies of all arbitrage reports and account statements as described below under "Record Keeping Requirements" and, upon request, providing such copies to the Issuer.

V. USE OF BOND PROCEEDS

The Manager of Finance shall be responsible for:

- Monitoring the use of Bond proceeds and the use of Bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in any tax agreement relating to the Bonds;
- Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds, including a final allocation of Bond proceeds as described below under "Record Keeping Requirements";
- Consulting with bond counsel and other legal counsel and advisers in the review of any contracts or arrangements involving use of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds;
- Maintaining records for any contracts or arrangements involving the use of Bond-financed or refinanced assets as described below under "Record Keeping Requirements";
- Conferring at least annually with personnel responsible for Bond-financed or refinanced assets to identify and discussing any existing or planned use of Bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Agreement relating to the Bonds; and
- To the extent that the Issuer discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

VI. RECORDKEEPING REQUIREMENTS

All relevant records and contracts shall be maintained as described in this section. Unless otherwise specified in applicable District documentation or Tax Certificates, the District shall maintain the following documents for the term of each issue of debt, including refunding debt, if any, plus at least 3 years:

— A copy of the bond closing transcript(s) and other relevant documentation, which may be in electronic form, delivered to the District at or in connection with closing of the debt issue;

— A copy of all material documents relating to capital expenditures financed or refinanced by bond proceeds, including, without limitation, construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with bond proceeds;

— A copy of all contracts and arrangements involving private use of bond-financed assets or for the private use of output or throughput of bond-financed assets; and

— Copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

VII. MISCELLANEOUS COMPLIANCE MATTERS

Post-issuance compliance shall include a due diligence review of all documentation and compliance items at least annually to ensure compliance and allow for any necessary corrections on a timely basis. Relevant staff will participate in training on a regular basis on matters necessary to monitor compliance and identify any appropriate policy changes. Other post-issuance requirements include:

— SEC Rule 15c2-12 Requirements. Compliance with all continuing disclosure obligations pursuant to each Continuing Disclosure Agreement for outstanding debt, including timely filing of audited financial statements, annual reports and material event notices.

— Covenant Compliance. Compliance with covenants as required under trust agreements or other financing agreements.

— Information Required to be Filed with Other Entities. Provide documents and notices to other parties as required, including rating agencies, liquidity banks and swap providers.

— Investments. Compliance with permitted investments.

VIII. CONTINUING EDUCATION & TRAINING

The Manager of Finance and relevant staff shall be provided with education and training on federal tax requirements for post-issuance compliance applicable to bond issues. The District will enable and encourage relevant personnel to attend and participate in educational and training programs offered by professional organizations and other entities with regard to monitoring compliance with federal tax and continuing disclosure requirements for the Bonds.

IX. BOND ACCOUNTABILITY

SB 1029 requires California issuers of municipal bonds to provide the following:

- The issuer of any proposed debt issue of state or local government shall, no later than 30 days prior to the sale of any debt issue, submit a report of the proposed issuance to the California Debt and Investment Advisory Commission (the "Commission").
- The issuer of any debt issue of state or local government, not later than 21 days after the sale of the debt, shall submit a report of final sale to the Commission. A copy of the final official statement for the issue shall accompany the report of final sale.
- A public agency, whether state or local, shall submit an annual report for any issue of debt for which it has submitted a report of final sale pursuant to subdivision (j) on or after January 21, 2017. The annual report shall cover a reporting period from July 1 to June 30, inclusive, and shall be submitted no later than seven months after the end of the reporting period.

Effective immediately, the District will comply with these provisions.