Board of Directors Approved on August 31, 2022

POLICY TITLE: Debt Management

POLICY NUMBER: 2155

This Debt Management Policy (the "Debt Policy") of the Cambria Community Services District (the "District") was approved by the Board of Directors of the District (the "Board") on August 31, 2022. The Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt of the District. Any approval of debt by the Board of Directors that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the District and is intended to comply with Government Code Section 8855, effective on January 1, 2017. This Debt Policy is essential to ensure that the District maintains a sound debt position while providing flexibility and maintaining financial stability.

1. OBJECTIVE

Unless waived by the District, this Debt Policy shall govern all debt undertaken by the District. The District hereby recognizes that a fiscally prudent debt policy is required in order to (i) maintain the District's sound financial position and achieve the lowest cost of capital; (ii) ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses; (iii) protect the District's credit-worthiness and maintain high credit rating and access to credit enhancement; (iv) ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the District and ensure rate- and tax- payers equity; (v) ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable; (vi) encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

2. POLICIES

A. Purpose and Use of Debt

The District will consider the use of debt financing for capital improvement projects ("CIP") primarily when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. Prior to the issuance of new debt, the Board of Directors shall review the debt to be financed. If required by law, such review shall be at a public hearing. This requirement shall not apply to the refinancing of existing debt. An exception to this section's focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below.

i. Long-Term Debt. The issuance of long-term debt is a valuable funding resource for the District. Used appropriately and prudently, long-term debt can minimize the District's charges and rates over time, depending on which Fund issues debt. To minimize dependency on debt financing for capital projects, annual renewal and replacement capital projects will be adequately funded from rates. Funding levels for capital investments will be sufficient to meet capital improvement projections needed as outlined in the current Capital Improvement Plan. Long-term debt will be considered only for large capital improvement projects or greater-than-normal capital plans. The District will be managed to at least meet, and potentially exceed, the minimum and target Debt Service Coverage (DSC) requirements as imposed by bond covenants. To the extent permitted by law, long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the District, water rights and supplies of water. Long term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

Use of long-term debt will be minimized. The District may consider the use of long-term debt financing when it appears that a capital project, or other expenditures as deemed appropriate by the Board, is of such a magnitude that it will negatively impact the District's rates in the short-term. The benefit of long-term debt financing is that it will spread the costs of the capital asset over a longer period of time and will, therefore, approximate the useful life of the asset, and over time, charge those customers that benefit from that asset more equitably.

(a) Long-term debt financings are appropriate when the following conditions exist:

- The project to be financed is necessary or desirable to provide basic services.
- The project to be financed will provide benefit to constituents over multiple years.
- The total debt does not constitute an unreasonable burden to the District and its ratepayers.
- The debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) The District may use long-term debt financings subject to the following conditions:

- When debt issuance is determined necessary, the District will assess the market conditions and timing for debt issuance to include issuing debt – 1) in times of favorable market conditions, 2) when Bond ratings would qualify District issuances to be investment grade, and 3) when revenues, including anticipated increases, are sufficient to adequately cover expected debt service and issuance costs.
- The project to be financed has been or will be approved by the Board.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
- The District estimates that sufficient income or revenues will be available to service the debt through its maturity. The District will issue debt only in the case where there is an identified source of repayment. Bonds will be issued to the extent that: (i) projected existing revenues are sufficient to pay for the proposed debt service together with all existing debt service covered by such existing revenues, or (ii) additional projected revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt.
- The District determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
- The District will meet all bond covenants associated with the long-term debt. Bond covenants are legal obligations of the District.
- Long-term debt issuances typically contain legal covenants regarding debt service coverage ("DSC"). A DSC ratio is an important financial measure of the District's ability to repay the outstanding debt obligation, and is reviewed for adequacy by banks and rating agencies. Generically, the DSC ratio is the District's net operating income, as specifically defined by the relevant bank or rating agency, divided by the total annual debt service payment. For financial planning purposes, the targeted annual DSC ratio will be greater than or equal to 1.40 on all outstanding debt that carries such a covenant.
- The District will fully adhere to all applicable Government Accounting Standards Board ("GASB") requirements and recognized best practices for the accounting treatment and disclosure of debt obligation transactions in its audited financial statements and other relevant publications.

- Bond credit enhancements, such as insurance against default, will be considered when necessary for market acceptance and when costs are favorable to the District.

ii. Short-Term Debt. The District may utilize short-term debt financing (including leases) to finance certain essential equipment and vehicles. These assets can range from service vehicles to equipment. The underlying asset must have a minimum useful life of one year or more. Short-term financing, including leases, on bill financing and capital lease purchases are executed to meet such needs. The Board of Directors must approve any such short-term financing for assets costing more than $25,000 by Resolution. Additionally, to the extent permitted by law, short-term debt may be issued to generate funding for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment.

B. Types of Debt

For purposes of this Debt Policy, in order to maximize the financial options available to benefit the public, it is the policy of the District to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds
- State or Federal loans, including Revolving Loan Funds
- Lease revenue bonds, certificates of participation and lease-purchase financings
- Bond or grant anticipation notes
- Other revenue bonds and certificates of participation
- 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 bonds, notes, loans and other obligations

The District may from time to time find that other forms of debt to, the extent permitted by law, would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy. The District may also consider joint arrangements with other governmental agencies and will communicate and coordinate with other governmental agencies regarding cost sharing in potential joint projects and will only be liable for its share of the debt service.

From time to time the District may elect to issue debt on a private placement basis. Such method shall 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.

Interest Rate Swaps

The incurring or carrying of variable-rate debt obligations by the District involves a variety of interest rate payments and other risks that interest rate swaps are available to offset, hedge, or reduce. It is the policy of the District to utilize such interest rate swaps to better manage its debt portfolio. The District will consider executing an interest rate swap transaction if it expects the swap transaction will result in any of the following:

a. Reduce exposure to changes in interest rates on a financial transaction;
b. Result in a significantly lower net cost of borrowing with respect to the District's debt consistent with an established target; or
c. Manage variable interest rate exposure consistent with prudent debt practices and guidelines as approved by the Board.

Savings Target

Interest rate swaps will require a significant financial benefit or savings versus traditional fixed-rate debt. For an interest rate swap intended to produce the effect of a synthetic fixed rate transaction, the swap transaction must generate 3% or greater net present value savings compared to standard fixed-rate bonds which have the same optional redemption features.

Restrictions

The District will not enter into any swap transaction:

a. for speculative purposes.
b. if the swap presents an extraordinary risk to the District's liquidity to terminate the agreement due to unforeseen events.
c. if there is insufficient price transparency to allow for fair market valuation.

Provider Requirements

The transaction provider will have a credit rating of AA (or equivalent) or better from at least two nationally recognized credit rating agencies (at the time of agreement execution). The transaction provider will have a demonstrated record of successfully executing derivative transactions and have a minimum capitalization of $2 billion.

Use of Independent Advisor

The District will use a professional advisor or designated swap representative ("Swap Advisor") to assist in the assessment, structuring, and pricing of proposed or existing interest rate swaps. The Swap Advisor will be a firm which:

a. is a Municipal Advisor registered with the Securities and Exchange Commission;
b. has sufficient knowledge to evaluate the swap transaction and risks;
c. is not subject to a statutory disqualification;
d. is independent of the swap dealer or major swap participant;
e. undertakes a duty to act in the best interests of the District;
f. provides appropriate and timely disclosures to the District; and
g. evaluates fair pricing and the appropriateness of the swap.

C. Relationship of Debt To Capital Improvement Program and Budget

The District is committed to long-term capital planning. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

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.

D. Policy Goals Related to Planning Goals and Objectives

The District is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's annual operating budget.

It is a policy goal of the District to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The District will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to do so either for the purpose of realizing debt service savings or for the purpose of restructuring debt in a manner which is in the best financial interests of the District. Any refinancing of debt for the purpose of realizing debt service savings shall achieve a minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount or such lesser amount as shall be designated in the resolution adopted by the Board of Directors which authorizes the refunding proceedings.

There are three key concepts that must be taken into consideration when evaluating a debt for refunding:

a. Financial and Policy Objectives
b. Financial Savings/Results of Financing
c. Bond Structure and Escrow Efficiency

Financial and Policy Objectives – The District may undertake a refinancing for a number of financial and/or policy objectives, including to achieve debt service savings, eliminate restrictive debt/legal covenants, restructure the stream of debt service payments, or to achieve other policy objectives. Although in most circumstances the District may undertake a refunding to obtain economic savings, it may refund an issue to restructure its debt portfolio in order to obtain budgetary/cash flow relief or to address exposure to other costs/liabilities and to extend the maturity.

Financial Savings/Results of Financing - The financial framework regarding the evaluation of refunding opportunities is to be developed and evaluated by the District's Financial Manager, typically to include the efforts of outside financial advisors. It is important to note that federal tax law typically permits an issuer to conduct one advance refunding over the life of a bond issue. As such, the District must take greater care (i.e., require a higher savings threshold) when evaluating an advance refunding opportunity.

In certain circumstances, lower savings thresholds may be justified. For example, when an advance refunding is being conducted primarily for policy reasons (other than economic savings), interest rates are at historically low levels or the time remaining to maturity is limited, and as such, future opportunities to achieve greater savings are not likely to occur.

Bond Structure and Escrow Efficiency – The District's debt management practices should anticipate the potential for future refundings. When debt is issued, careful attention should be paid to the bond structure to address features that may affect flexibility in the future. To that end, upon debt issuance, the District shall consider: optional redemption provisions, bond coupon characteristics giving up call rights for certain maturities in exchange for a lower interest rate on the bonds, call provisions that permit the redemption of bonds in any order of maturity or on any date, call provisions that permit the issuer to call bonds at the earliest date without incurring a significant interest-rate penalty, and coupons on callable bonds priced as close to par as possible at the time of original issue.

Escrow Efficiency - The lower the cost of the escrow the more efficient the escrow. Also, in order to be efficient, escrow securities need to mature or pay interest when debt service payments of the refunded escrow are due.

Current vs. Advance Refunding - There are two types of refundings, as defined by Federal Tax laws; a current refunding in which a refunding takes place (i.e., refunding bonds are sold) within 90 days of the optional call date, and an advance refunding in which refunding bonds are sold more than 90 days prior to the first call date and are issued on a taxable basis.

E. Internal Control Procedures

When issuing debt, the District shall comply with any applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The District will periodically review the requirements of and will remain in compliance with (i) any continuing disclosure undertakings under SEC Rule 15c2-12; (ii) any federal tax compliance requirements; (iii) any required reporting to be filed with the California Debt and Investment Advisory Commission (CDIAC); and (iv) the District's investment policies as they relate to the investment of bond proceeds.

Any Director of the Board, the General Manager, the Finance Officer or any designee can recommend future changes to the Debt Policy as deemed necessary.

The General Manager and Finance Officer are responsible for adherence to this Debt Policy and regular reporting of the District’s financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Debt Policy.

This Debt Policy will be reviewed at least biennially.