NAPA-VALLEJO WASTE MANAGEMENT AUTHORITY

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## DEBT MANAGEMENT POLICY

### I. Introduction / Purpose

The purpose of the Napa-Vallejo Waste Management Authority (the "Authority") Debt Management Policy (the "Policy") is to ensure sound and uniform practices for issuing and managing debt. This Policy confirms the commitment of the Authority's Board of Directors (the "Board") and staff to adhere to sound financial management practices.

This Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the Authority. This Policy is subject to and limited by applicable provisions of state and federal law and to prudent debt management principles.

Policy implementation and the day-to-day responsibility for and authority over the Authority's debt program will lie with the Executive Director and Treasurer, with participation by other Authority staff as necessary.

### II. Policy Objectives

The Policy objectives are as follows:

- Establish a systematic and prudent approach to debt issuance and debt management to ensure the financial stability of the Authority.
- Ensure access to debt capital markets and direct purchase investors (private placement providers) through prudent and flexible policies.
- Maintain the Authority's sound financial position.
- Protect the Authority's good credit worthiness and minimize the Authority's borrowing costs.
- Ensure that all debt is structured in order to protect both current and future ratepayers and customers of the Authority.

## III. Purposes for Which Debt May Be Issued

### a. Long-Term Debt

Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the Authority.

Long-term debt financings are appropriate when all of the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When the cost of the project is such that pay-as-you-go funding with available revenues would reduce reserves below prudent levels.
- When total debt does not constitute an unreasonable burden to the Authority and its ratepayers.

When the debt is used to refinance outstanding debt, it should produce debt service savings or realize the benefits of a debt restructuring. Long-term debt financings will not be considered appropriate for current operating expenses and routine maintenance expenses.

### b. Short-Term Debt

Short-term debt may be issued to provide financing for the Authority'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 Authority may undertake lease-purchase financing for equipment.

## IV. Types of Debt

The following types of debt are allowable under this Policy:

- solid waste enterprise revenue bonds, certificates of participation and loans
- general obligation bonds (subject to voter approval)
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions

- revenue anticipation notes

## V. Relationship of Debt to Capital Improvement Program and Budget

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

The Authority shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The Authority shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Authority 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 Authority's public purposes.

The Authority shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

## VI. Policy Goals Related to Planning Goals and Objectives

The Authority is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The Authority intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the Authority's plan for capital improvements.

It is a policy goal of the Authority to protect ratepayers and customers by utilizing conservative financing methods and techniques so as to obtain the lowest practical borrowing costs.

The Authority 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 assessments, rates and charges.

## VII. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Policy, the Authority shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The Authority will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any periodic reporting and disclosure requirements of any private placement lender,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior debt issues, and
- any guidelines and policies of the Authority that relate to the investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee, which will disburse such proceeds to the Authority upon the submission of one or more written requisitions, or (b) by the Authority, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the Authority.

## VIII. Standards for Debt Financing

The Authority will minimize the level of debt by incurring debt only in those cases where public policy, public interest and/or economic efficiency favor debt over cash financing or other sources of funding.

### a. Board Approval

Each issuance of debt shall be submitted to the Board for approval upon recommendation of staff. Government Code § 53635.7 requires that the Board discuss, consider, and deliberate each decision regarding the issuance of debt as a separate item of business on the agenda, and not on the consent calendar.

### b. Credit Ratings

Without compromising the Authority's objectives, for all publicly offered debt, the Authority will work to ensure that all debt issuances receive the highest credit ratings possible. In addition, the Authority will attempt to maintain or improve the credit ratings, if any, of outstanding debt.

### c. Method of Sale

The Authority's goal is to protect the public's interest by obtaining the lowest possible overall cost of funds. To obtain this goal, the Authority may use a public competitive or public negotiated sale of securities, or private placement of a loan with a bank or other financial institution. The appropriate method should be determined on a case-by-case basis with input from the Authority’s municipal advisor.

**d. Outside Consultants**

Where appropriate, the Authority will engage a financing team of outside consultants in connection with each offering of debt, which may include a municipal advisor who has a fiduciary duty to the Authority, bond counsel, disclosure counsel, and other professionals and consultants as needed.

**e. Economies of Scale**

To the extent possible, the Authority will bundle projects into fewer transactions to achieve economies of scale associated with costs of issuance when feasible.

**f. Arbitrage Regulations**

Generally, tax-exempt debt issues are subject to IRS arbitrage rebate requirements. These requirements specify that any arbitrage – that is, earnings on proceeds at a rate that is higher than the rate on the borrowing – be rebated to the Federal Government. Rebate computations are typically required every five years and upon final redemption or maturity of the bonds. Any excess earnings are required to be rebated to the Federal Government. An arbitrage rebate consultant may be retained to calculate whether arbitrage is owing.

**g. Arm's Length Transactions**

The Authority will endeavor to have "Arm's Length Transactions," in which the buyers (underwriters, investors or lenders) of the debt have no relationship with the Authority. For Arm's Length Transactions, the Authority and the buyer are both acting in their own self-interest and are not subject to any pressure or duress from the other party.

**h. Due Diligence**

The Authority will conduct one or more "due diligence" meetings or electronic (virtual) conferences with all relevant Authority staff and financing team members and market participants prior to the issuance of debt. For publicly offered debt, a Preliminary Official Statement will be released to the market only after the completion of the "due diligence" meetings and approval in form by the Board.

**i. Term and Structure**

Long-term debt financing of capital projects will be for a period not to exceed the expected average useful life of the assets being financed, and in no event should exceed 30 years. Debt service will be structured to be level over the term of the financing except in those instances where it is economically advantageous to the Authority or meets other Authority objectives to structure debt service differently.

Short term debt and structure will be determined on a case-by-case basis and will be consistent with appropriate legal and tax requirements.

**j. Debt Service Reserve Fund**

For long term debt and where appropriate for short-term debt, a debt service reserve fund may be utilized to achieve optimal pricing, if necessary. A debt service reserve fund requirement may be funded through an insurance policy or surety bond if found to be economically advantageous.

**k. Capitalized Interest**

Capitalized interest may be used to defer the Authority's payment of debt service if deemed to be advantageous under the circumstances of each specific debt issuance.

**l. Fixed and Variable Rate Debt**

Debt shall be issued as fixed rate debt unless the Authority makes a specific determination as to why a variable rate issue would be beneficial to the Authority in a specific circumstance. The Authority's variable rate exposure shall not exceed 20% of its overall debt portfolio.

**m. Credit Enhancement**

The Authority will consider the use of credit enhancements for debt issuances on a case-by-case basis, evaluating the economic benefit versus the cost for each case. Bond insurance, stand-by letters of credit and other credit enhancements should be used only when they clearly demonstrate a net present value savings to the Authority.

**n. Derivatives**

The Authority's preference is not to employ derivative products, such as interest rate swaps, in its debt program. If derivative products are used, they should only be employed after careful evaluation of potential benefits and risks by the Board and after adoption by the Board of a separate derivatives policy.

## IX. Refinancing of Debt

Outstanding bonds or other debt may be refinanced and refunded to achieve present value savings on debt service, to modify interest rate risk, or to restructure the payment schedule, type of debt instrument used, or covenants of existing debt.

The Authority will consider such opportunities and evaluate the present value economic benefit they may present.

**a. Debt Service Savings**

The Authority has established a minimum net present value cash flow savings threshold goal of 3.00% of the refunded bond principal amount.

The present value savings will be net of all costs of the refinancing, will consider the difference in interest earnings of the debt service reserve funds of the refunded and refunding bonds, and may include any cash associated with the refunded bonds held by the Trustee. The decision to realize the savings on anything other than a level basis (i.e., an upfront or deferred basis) must be approved by the Board after recommendation by staff.

**b. Restructuring**

Refinancing transactions may be executed to achieve goals other than net present value savings, including: restructuring to meet unanticipated revenue expectations, mitigate irregular debt service payments, release reserve funds, remove unduly restrictive covenants, or other goals set by the Board.

## X. Modifications to this Policy

This Policy will be reviewed periodically and updated as necessary. Any changes to the Policy are subject to approval by the Board. While adherence to this Policy is required, the Authority recognizes that changes in capital markets, Authority programs, and other unforeseen circumstances may produce situations that are not covered by this Policy. In addition, this Policy is not intended to hinder the Authority's use of any new financing techniques that may arise. This Policy shall be amended to reflect any new financing techniques recommended by staff and approved by the Board.