DEBT MANAGEMENT POLICY
OF THE BURNEY WATER DISTRICT

Purpose and Scope

This Debt Management Policy (the "Debt Policy") establishes the parameters within which debt may be issued and administered by the Burney Water District and or other related entities of the District (collectively, the "District").

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the District.

The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future revenue levels, construction, maintenance and operating expenses.
- Protect the District's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future property owners and constituents of the District.
- Ensure that the District's debt is consistent with its planning goals and objectives and capital improvement program or budget, as applicable.

Policy

Purposes for Which Debt May Be Issued

Long-Term Debt. Long-term debt may be issued to finance the construction, acquisition, and long-term maintenance of capital improvements and facilities, equipment and land to be owned and operated by the District.

Long-term debt financings are appropriate when 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 total debt does not constitute an unreasonable burden to the District's constituents.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

Long-term debt financings will not generally be considered appropriate for current operating expenses and annual routine maintenance expenses.

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

- The project to be financed must be approved by the Board of Directors.
- 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 revenues will be available to service the debt through its maturity.
- The District determines that the issuance of the debt will comply with the applicable state and federal laws.

Short-term debt. Short-term debt may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance and other purposes as permitted by the Government Code. Short-term debt may also be used to finance short-term capital projects or to provide interim financing for long-term capital projects.

Types of Debt

The following types of debt are allowable under this Debt Policy:

- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982 and assessment bonds issued under applicable assessment statutes.
- General obligation bonds (GO Bonds).
- Bond or grant anticipation notes (BANs or GANs).
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds, notes and COPs.
- Tax and revenue anticipation notes (TRANs).
- Government-sponsored direct loans with federal or state agencies.
- Loans from private banks and institutions.

The Board of Directors 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 District may also waive some or all of the requirements hereunder with respect to issuing debt if it finds that non-compliance herewith is beneficial to the District.

Relationship of Debt to Capital Improvements 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 for its capital improvements and budget.

The District 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 District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The District 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.

Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term 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 annual operations budget.

It is a policy goal of the District to protect ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings 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 assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage. Refinancing which do not produce savings are permitted if justified based on the need for restructuring to remove covenants/pledges that are restrictive and/or no longer required by the market and/or to make other changes in debt documents that would benefit the current, short-term, or long term capital cost of the District.

Internal Control Procedures

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

Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- Investment policies as they relate to the use and investment of bond proceeds.
- Any continuing disclosure undertakings entered into by the District in accordance with SEC Rule 15c2-12, if applicable.
- Any bond covenants.
- The Annual Debt Transparency Report requirements imposed by the California Debt and Investment Advisory Commission.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by an authorized representative of the District, or his or her written designee, or (b) by the District, to be held and accounted for in a separate fund, general account or project account, the expenditure of which will be carefully documented by the District.

Use of Derivatives

Derivative products include but are not limited to interest rate swaps, interest rates caps and collars and forward or other hedging agreements. Derivative products will be considered in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or, alternatively, where it will reduce total debt service cost in a manner that exceed the risks. Derivative products will only be utilized following the adoption of derivative product policy and with prior Board approval. In addition, an analysis of early termination costs and other conditional terms must be completed by the District or a municipal advisor retained by the District prior to the approval of any derivative product by the Board. Such analysis will document the risks and benefits associated with the use of the particular derivative product.

Professional Services

The District may retain professional services providers as necessary or desirable in connection with: (i) the structuring, issuance and sale of its debt; (ii) monitoring of and advice regarding its outstanding debt; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation bond insurance, credit facilities and investment agreements; and (iv) other similar or related matters. Professional service providers may include municipal advisors, bond counsel, disclosure counsel, District consultants, bond trustees and federal arbitrage rebate services providers, and may include, as appropriate, underwriters, feasibility consultants, remarketing agents, auction agents, broker-dealers, escrow agents, verification agents and other similar parties.

The District shall require that its municipal advisors, if any, bond and disclosure counsel and other District consultants be free of any conflicts of interest, or that any necessary or appropriate waivers or consents are obtained.

A) Municipal Advisors

The District may utilize one or more municipal advisors to provide ongoing advisory services with respect to the District's outstanding and proposed debt and related agreements, including without limitation bond insurance, credit facilities, derivatives, investment agreements and other similar matters. Municipal advisors must be registered with the Municipal Securities Rulemaking Board and as a municipal advisor as such term is defined in the Securities Exchange Act of 1934 and shall be required to disclose any conflicts of interest.

B) Bond Counsel, Disclosure Counsel and Other Legal Counsel

1) <u>Bond Counsel</u>. The District may utilize one or more bond counsel firms to provide ongoing legal advisory services with respect to the District's outstanding and proposed debt and related agreements.

2) Disclosure Counsel. The District may utilize a disclosure counsel firm to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the District's outstanding and proposed debt. Such firm may be the District's bond counsel firm.

3) Other Legal Counsel. The District may encourage or require, as appropriate, the retention and use of legal counsel by other parties involved in the issuance of debt and the execution of related agreements which are approved by the District, including, but not limited to, counsel to any bank lending to the District.

C) District Consultant

The District may utilize one or more outside District consultants to provide ongoing advisory services with respect to the District's outstanding and proposed debt, District fares, strategic business and financial decisions and such other matters as the District requires.