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SITES PROJECT AUTHORITY
DRAFT Debt Management Policy

1. Purpose:

This Debt Management Policy (“Debt Policy”) establishes the parameters within which bonds, loans, notes, capital leases, and other forms of indebtedness may be issued and administered by the Sites Project Authority (the “Sites Authority”).

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 Sites Authority.

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

- Maintain the Sites Authority’s sound financial position.
- Ensure the Sites Authority has the flexibility to respond to changes in service priorities, future revenue levels, construction, maintenance and operating expenses.
- Protect the Sites Authority’s creditworthiness.
- Ensure that the Sites Authority’s debt is consistent with its planning goals and objectives and capital improvement program or budget, as applicable.
- Ensure total debt does not constitute unreasonable burden to the Sites Authority or its Participants.

2. Definitions:

Participants (or “Reservoir Committee members”): Participants are entities that pay to participate and receive benefits in the Sites Reservoir Project, including certain Sites Authority members and other municipal entities or special districts. This Debt Policy solely contemplates debt issuance among the entirety of Participants conforming to the Joint Powers Agreement, bylaws, and project agreements. The State and Federal government is not considered Participants for the purpose of this Debt Policy.

Sites Project Authority (“Sites Authority”): The Sites Project Authority, an independent joint powers authority established pursuant to the Joint Exercise of Powers Agreement to exercise

powers common to the Sites Authority members to, among other things, effectively study, promote, develop, design, finance, acquire, construct, manage, and operate Sites Reservoir and related facilities such as recreation and power generation.

Sites Reservoir Project (“Project”): The entire physical infrastructure and capital improvements to be designed, constructed, commissioned, and completed by the Sites Authority.

3. Policy:

Purposes for Which Debt May Be Issued [Required by Gov. Code Section 8855(i)(1)(A)]

1. Long-Term Debt. Long-term debt may be issued upon approval of the Sites Authority and as authorized by the Participants to finance the construction, acquisition, and long-term maintenance of capital improvements and facilities, equipment and land to be owned and operated by the Sites Authority.
 - a. Long-term debt financings are appropriate when the following conditions exist:
 - i. When the project to be financed is necessary to provide agreed upon benefits to Participants.
 - ii. When the project to be financed will provide benefit to Participants over multiple years, at a minimum, conforming to capitalization conditions described in the Authority’s Accounting Policy.
 - iii. When total debt does not constitute an unreasonable burden to the Sites Authority or Participants.
 - iv. 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.
 - b. Long-term debt financings will not be used for current operating expenses and annual routine maintenance expenses.
 - c. The Sites Authority may use long-term debt financings subject to the following conditions:
 - i. The project to be financed must be approved by the Sites Authority upon the recommendation of the Reservoir Committee and must be reflected in executed Benefits and Obligations Contracts with Participants.
 - ii. The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not materially exceed the average useful life of the project to be financed.
 - iii. The Sites Authority estimates that sufficient revenues will be available to service the debt through its maturity.
 - iv. The Sites Authority determines that the issuance of the debt will comply with the applicable state and federal laws.
2. Short-term debt. Short-term debt may be issued to provide financing for the Sites Authority’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-lived capital projects or to provide interim financing for long-lived capital projects which will be refinanced to long-term debt at a time most cost efficient for Participants.

Types of Debt [Required by Gov. Code Section 8855(i)(1)(B)]

The Sites Authority may issue the following types of tax-exempt or taxable debt:

- Revenue Bonds secured by general revenues or project revenues
- Commercial Paper or other Interim Funding Notes
- Capital Leases
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Installment Sale or Purchase Agreements Revenue Bonds
- Bond, Grant or Loan Anticipation Notes
- Tax and Revenue Anticipation Notes
- State and Federal Loans
- Direct Bank Loans or Lines of Credit

The Sites Authority 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, subject to conditions of the Joint Powers Agreement, bylaws and project agreements.

Relationship of Debt to Capital Improvements and Budget [Required by Gov. Code Section 8855(i)(1)(C)]

The Sites Authority is committed to long-term capital planning. The Sites Authority intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions for capital improvements and budget.

The Sites 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 Sites Authority shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear, unless approved by the Sites Authority Board.

The Sites 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.

Policy Goals Related to Planning Goals and Objectives [Required by Gov. Code Section 8855(i)(1)(D)]

The Sites Authority is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. The Sites Authority 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 Sites Authority to protect Participants and their constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings and the lowest practical borrowing costs.

The Sites 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.

When refinancing debt, it shall be the policy goal of the Sites Authority 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.

Internal Control Procedures [Required by Gov. Code Section 8855(i)(1)(E)]

When issuing debt, in addition to complying with the terms of this Debt Policy, the Sites Authority 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 Sites Authority 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 Authority in accordance with SEC Rule 15c2-12, if applicable.

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 Sites Authority upon the submission of one or more written requisitions by an authorized representative of the Sites Authority, or his or her written designee, or (b) by the Sites Authority, 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 Sites Authority.

4. Process:

This Policy governs indebtedness issued by the Sites Authority which is subject to approval by the Sites Authority. While adherence to this Policy is generally required, it is recognized that

changes in the capital markets, Sites Authority conditions and other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to best achieve policy goals. The Sites Authority may approve debt that deviates from this Policy upon the recommendation of management without an amendment of this Policy.

Notwithstanding anything in this Policy to the contrary, the failure of the Sites Authority to comply with any provisions of this Policy shall not affect the authorization, validity or enforceability of any debt or other forms of indebtedness that are otherwise issued in accordance with law.

5. Policy Term:

This Policy will be reviewed as needed, and at a minimum annually, in connection with the Sites Authority's efforts to secure external Project financing. Any changes shall occur by way of a resolution adopted by the Sites Authority. This Policy will remain in effect as amended or restated in the future by the Sites Authority.