



**LINCOLN SMD-1
WASTEWATER AUTHORITY**

**DEBT
MANAGEMENT AND
DISCLOSURE
POLICY**

LINCOLN SMD-1 WASTEWATER AUTHORITY (LiSWA)

Debt Management and Disclosure Policy

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1. Debt Policy Background and Purposes

Lincoln SMD-1 Wastewater Authority (“LiSWA”) was established under the provisions of the Joint Exercise of Powers Act, being Chapter 5 of Division 7 of Title 1 of the California Government Code (“Government Code”), commencing with Section 6500 (the “Act”) and a Joint Exercise of Powers Agreement entered into by and between the City of Lincoln (“City”) and the County of Placer (“County” and collectively with the City, the “Member Agencies” and each a “Member Agency”) for the establishment of the LiSWA (the “Agreement”) and setting forth the powers of LiSWA, which include, but are not limited to:

Own, acquire, expand, manage, maintain, operate, and control facilities for the collection and transmission (as defined in this Agreement), treatment, reclamation, recycling, reuse, sale, and disposal of water, wastewater, and recycled water, and any related byproducts.

This LiSWA Debt Management Policy (“Policy”) is intended to comply with the requirements of Section 8855 of the Government Code and to set forth various matters for LiSWA financing transactions.

2. Findings

a. Debt Management

Unless otherwise directed or determined by the Board, this Policy shall govern all debt issued by, or undertaken by, LiSWA.

The LiSWA hereby recognizes that a fiscally prudent Policy is required in order to:

Maintain the LiSWA’s sound financial position.

Ensure the LiSWA has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses and to respond to the needs of its members.

Protect the LiSWA’s credit-worthiness and exposure to financial and legal liabilities.

Ensure that all LiSWA debt is structured in order to protect the interests of LiSWA members and ratepayers.

Help ensure that the LiSWA’s debt is consistent with the LiSWA’s planning goals and objectives, capital improvement programs or budget, as applicable.

b. Disclosure.

This Policy is intended to establish and implement the practices and procedures necessary to ensure compliance with applicable federal and State of California (“State”) securities laws. The

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disclosure policies and procedures set forth in this Policy are also to: reduce exposure of the LiSWA and its officials and employees to liability for damages and enforcement actions based on misstatements and omissions in the LiSWA's disclosure documents; to reduce borrowing costs by promoting good investor relations; and to protect members and ratepayers of the LiSWA and other third parties from misstatements or omissions in LiSWA's disclosure documents.

3. Purposes of For Which Debt May be Issued

LiSWA will consider debt financing for the construction, acquisition, rehabilitation, replacement, or expansion of physical assets, including real and personal property, equipment, furnishings and improvements, and any other uses, projects and/or capital programs authorized by the Agreement, for the following purposes:

- a. To finance public facilities, services or programs, including but not limited to short-term borrowing needs, budget shortfalls and access to capital for public improvements and infrastructure.
- b. To assist certain private individuals and entities in financing project(s) or program(s) that produces public benefits related to the LiSWA purposes or powers.
- c. To refinance LiSWA outstanding debt in order to (i) produce debt service savings, (ii) to restructure debt for other benefits such as refinancing a bullet payment or a spike in debt service, or (iii) to provide or produce other public benefits
- d. To finance a project or program, consistent with LiSWA's purposes - which are intended to provide public benefits to any local community, including its residents, business, or institutions, including but not limited to promoting economic development.

4. Authorized Types of Debt

The following types of debt m under this Policy:

- a. Conduit revenue bonds or notes;
- b. General obligation bonds;
- c. Bond or grant anticipation notes;
- e. Leases, lease revenue bonds, installment sale or purchase agreements, certificates of participation and lease-purchase transactions;
- f. Revenue bonds;
- g. Tax and revenue anticipation notes;
- h. 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 acts, including PACE financings; and
- i. Any other type of debt permitted under the Agreement and authorized by law.

For purposes of this section, the term "bonds" may include notes, warrants, leases, installment purchase agreements, certificates of participation, financing agreements, loan agreements,

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lease-lease-back financing transactions or any other evidence of an obligation to pay or repay money.

LiSWA may from time to time find that other types of debt would be beneficial to further its purposes and may approve such debt without an amendment of this Policy.

This Policy includes all debt that must ultimately be approved by the LiSWA Board of Directors (“Board”). This Policy is not intended to address inter-fund borrowing; interagency borrowing; or authorized investment activities of the LiSWA Treasurer (“Treasurer”) including, but not limited to, reverse repurchase agreements and securities lending.

5. Relationship to Capital Improvements Program or Budget, Planning Goals And Objectives

LiSWA’s goal is to undertake programs that advance its purpose, and this Policy provides flexibility for LiSWA to obtain financing to provide wastewater treatment and reclamation services including financing programs to further its purpose.

LiSWA is committed to long-term financial planning, maintain appropriate reserve levels and employing prudent practices in governance, financial management and budget administration. LiSWA intends to issue debt for the purposes stated in this Debt Management Policy and to implement policy decisions in the annual operations budget.

It is LiSWA’s goal to utilize conservative financing methods and techniques to obtain the highest practical credit ratings and the lowest practical borrowing costs.

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

6. Debt Administration

Debt management will be the responsibility of General Manager (GM) and the Treasurer as follows:

- a. **Reviewing and recommending debt financing - GM & Treasurer.** The GM and Treasurer will be responsible for reviewing, analyzing and recommending new issue debt financing when appropriate and consistent with these policies. The Board will review and approve proposed debt financing proposals.
- b. **Leading the process of issuance - GM, Treasurer and LiSWA Counsel.** Officials will work together to select financial advisors, underwriters, bond counsel, disclosure counsel and other members of a financing team. Officials will prepare bond documentation including official statements and will review them for material errors or omissions before such documents can be deemed final.
- c. **Internal control procedures regarding use of debt proceeds; fiscal agent-Treasurer.** Whenever reasonably possible, proceeds of debt used to finance capital

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improvements will be held by a third-party banking institution (trustee, fiscal agent or similar) and LiSWA will submit written requisitions for such proceeds. The Treasurer will execute each such requisition. The Treasurer will be responsible for selecting the banking institution associated with bond issues. To the extent recommended by bond counsel, the rating agencies or any bond insurer, the Treasurer will serve as LiSWA's fiscal agent on its debt transactions.

- d. **Continuing Annual Disclosure -Treasurer, Auditor, and GM.** The Securities and Exchange Commission (“SEC”) requires that underwriters obtain promises in writing from municipal debt issuers to provide specified financial and operating information on an annual basis for all public offerings. This promise for continuing annual disclosure is set forth in a separate agreement between the issuer and the underwriter who purchases LiSWA's bonds. The GM will oversee the preparation of annual disclosure reports as required under federal law and regulations, and consistent with the continuing disclosure agreement pertaining to that financing. Such reports will be reviewed in the manner of initial official statements. Under continuing disclosure requirements LiSWA is obligated to provide ongoing disclosure of material events, including those that are specifically enumerated in the agreement for its public offerings.
- e. **Arbitrage administration-Treasurer.** The Treasurer is charged with responsibility for establishing and maintaining, either directly or through contract, a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of LiSWA's outstanding debt issues.
- f. **Covenant Administration-GM.** The GM will establish and maintain a system for monitoring the various covenants and commitments established within the documentation of a bond issue and ensuring that staff or consultants take such actions as required to comply with the various covenants of a financing.

Small Lease-purchases. LiSWA, or any sub-unit of LiSWA, shall not enter into a lease-purchase contract, or incur other form of indebtedness, of more than \$50,000 without the express approval of the Board.

- g. **Investing Bond Proceeds-Treasurer.** The Treasurer is responsible for investing all bond proceeds held by LiSWA and directing the investment of all funds held by the relevant banking institution under the terms of the applicable securities issuance document(s). Such investments shall also be consistent with applicable State and federal law.

7. Debt Structure Considerations

- a. **Rapidity of Debt Repayment.** Borrowing by LiSWA should be of a duration that

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does not exceed the economic life of the improvement that it finances. The debt repayment term should be not be longer than the improvement's projected useful life in an effort to improve LiSWA's credit profile through early retirement of debt, and to recapture debt capacity for future use. LiSWA may choose to structure debt repayment on any particular transaction so as to consolidate or restructure existing obligations or to achieve other financial planning goals.

- b. **Capitalized Interest.** LiSWA may include within its borrowings additional funds to pay interest on the obligation during an initial period. Such capitalizing of interest will be most commonly used to secure lease obligations during the project construction period, as generally required under California law, or to secure an improved financing structure for strategic management of cash flow.
- c. **Mello-Roos and Assessment Bonds.** The GM will evaluate programs in light of the total tax rate burden.
- d. **Short-term Financing.** LiSWA will consider issuing Tax and Revenue Anticipation Notes for annual cash flow purposes or other short-term financing instruments to the extent such securities would reduce expenses, increase revenues and/or expedite the meeting of LiSWA's goals.
- e. **Variable Rate Bond.** LiSWA will consider variable rate debt on a case-by-case basis. The general preference of LiSWA is to issue fixed rate debt.

8. Method of Sale

There are generally three ways bonds can be sold, through a competitive, negotiated sale or a private placement. The following outlines the basis by which LiSWA will determine the appropriate method of sale for a given financing.

- a. **Competitive Process.** With a competitive sale, any interested underwriter is invited to submit a proposal to purchase an issue of bonds. The bonds are awarded to the underwriter(s) presenting the best bid according to stipulated criteria set forth in the notice of sale. LiSWA, as a matter of policy, will seek to issue its debt obligations through a competitive process unless it is determined in consultation with the Treasurer that such a sale method will not produce the best results for LiSWA. This type of sale process is also significantly more likely to give LiSWA higher market exposure which creates an awareness of LiSWA credit that increases market interest in future debt issues of LiSWA.
- b. **Negotiated Sale.** Under this method of sale, securities are sold through an exclusive arrangement between the issuer and an underwriter or underwriting syndicate. At the end of successful negotiations, the issue is awarded to the underwriters. Negotiated underwriting may be considered if it fits one or more of the following criteria: extremely small issue size; complex financing structure or nature of the project being financed (i.e., variable rate financing, new derivatives, and certain revenues issues, etc.); compromised credit quality of LiSWA or the issue; other issue or market factors which lead the GM and

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Treasurer to conclude that a competitive sale would not be effective. When determined appropriate by the GM and Treasurer, and approved by the Board, LiSWA may elect to sell its debt obligations through a negotiated sale.

- c. **Private Placement.** When determined appropriate, usually in the case of a very small issue, and/or short financing term, LiSWA may elect to sell its debt obligations through a private placement or limited public offering. Selection of a lender or placement agent will be made pursuant to selection procedures developed by the GM and Treasurer.

9. Refunding of LiSWA Indebtedness

The LiSWA GM will monitor LiSWA's existing indebtedness and will initiate the refunding of such obligations if it would generate a reasonable level of savings. The following guidelines will be used in determining whether a refunding would be appropriate.

- a. **Debt Service Savings - Advance Refunding.** LiSWA may issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, financially prudent, and net present value savings, expressed as a percentage of the par amount of the refunded bonds, equal or exceed 5 %. The LiSWA Board may approve a lower savings threshold to the extent that such a threshold is appropriate given the specific conditions of the proposed refunding. Under current federal law, advance refundings of tax-exempt securities result in federally taxable refunding securities.
- b. **Debt Service Savings - Current Refunding.** LiSWA may issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, and financially prudent, and net present value savings equal or exceed 3% of the outstanding amount of refunded bonds.

10. Interpretation, Amendment

This Policy is intended to be interpreted in a manner consistent with LiSWA's existing policies and program guidelines and shall be subject to any contrary provisions thereof. The Board may, by resolution, waive any provision of this Policy, with respect to a particular debt issue.

The Board reserves the power to amend this Policy in the future, by Resolution, as it may determine, from time to time.

11. Disclosure Policies

- a. **Disclosure Coordinator.**

The Treasurer shall be the disclosure coordinator of the LiSWA (for purposes of this Policy, the "Disclosure Coordinator"). It is the policy of the LiSWA that the Disclosure Coordinator will regularly consult with the GM and LiSWA Counsel with respect to the disclosure matters described in this Policy.

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b. **Outside Professionals.**

It is the LiSWA's policy to establish continuing working relationships with professional advisors with expertise in the area of public finance and federal securities laws applicable to the issuance of securities by the LiSWA. Subject to the Securities and Exchange Commission's ("SEC") Independent Registered Municipal Advisor Rule ("IRMA"), the LiSWA may hold a contract with one or more independent registered municipal advisor firms.

c. **Review and Approval of Official Statements.**

The Disclosure Coordinator shall review any Official Statement prepared in connection with any debt issuance by the LiSWA in order to ensure there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by, or on behalf of, LiSWA.

In connection with its review of any such Official Statement, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the LiSWA, and all members of LiSWA staff, to the extent that the Disclosure Coordinator concludes that they should be consulted so that each such Official Statement will include all "material" information (as defined for purposes of federal securities law).

In connection with its review of the Official Statement, the Disclosure Coordinator shall also consult with representatives of the Member Agencies to the extent necessary.

As part of the review process, and prior to submitting any Official Statements to the Board for approval, the Disclosure Coordinator shall submit all Official Statements to the GM and the LiSWA Counsel for their review.

The GM shall review the Official Statement and shall take primary responsibility for those sections of the Official Statement describing the operations of the LiSWA.

LiSWA Counsel shall review the Official Statement and shall draft for the Official Statement descriptions of (i) any material current, pending or threatened litigation, (ii) any material settlements or court orders and (iii) any other legal issues that are material information for purposes of the Official Statement.

The Treasurer shall review the Official Statement to identify any material difference in presentation of financial information from the LiSWA's financial statements and ensure there are no misstatements or omissions of material information in any sections that contain descriptions of information prepared by the Treasurer (or the Treasurer's staff) or of relevance to the finances of the LiSWA. In addition, the Treasurer shall determine whether the LiSWA's then-available Financial Statements are appropriate to be included in the Official Statement and whether to seek the consent of the LiSWA's outside auditor to including the Financial Statements in the Official Statement.

The GM is responsible for ensuring that the key LiSWA staff participates in preparation of the Official Statement.

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After receiving feedback from the GM, the Treasurer and LiSWA Counsel, the Disclosure Coordinator shall submit an Official Statement to the Board for approval.

The Board shall undertake such review as deemed necessary by the Board, following consultation with the Disclosure Coordinator, to fulfill the Board's responsibilities under applicable federal and state securities laws. In this regard, the Disclosure Coordinator shall consult with the LiSWA's disclosure counsel to the extent the Disclosure Coordinator considers appropriate.

The Disclosure Coordinator shall retain a record of the actions taken to prepare, check and approve each Official Statement.

d. **Continuing Disclosure Filings.**

Under the continuing disclosure undertakings that the LiSWA has entered into in connection with its debt offerings, the LiSWA is required each year to file annual reports with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("EMMA") system in accordance with such undertakings. Such annual reports are required to include certain updated financial and operating information, and the LiSWA's audited financial statements.

If the LiSWA does not have audited financial statements available, the Treasurer shall submit the LiSWA's unaudited financial statements in either draft or final form whichever is available to meet the disclosure deadline. In the event draft or unaudited financial statements are submitted, the Treasurer shall submit final audited financial statements as soon as they are available.

The LiSWA is also required under its continuing disclosure undertakings to file notices of certain events with EMMA.

The Disclosure Coordinator is responsible for establishing a system (which may involve the retention of one or more consultants) by which:

- i. the LiSWA will make the annual filings required by its continuing disclosure undertakings on a complete and timely basis, and
- ii. the LiSWA will file notices of enumerated events on a timely basis.

In connection with preparation of annual reports and event filings, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the LiSWA, and all members of LiSWA staff, to the extent that the Disclosure Coordinator concludes they should be consulted so the annual report and event filings will include all "material" information (as defined for purposes of federal securities law).

As part of the review process, the Disclosure Coordinator shall submit all annual reports and event filings to the GM, the Treasurer and LiSWA Counsel for approval, and shall also consult with representatives of the Member Agencies to the extent appropriate.

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The Disclosure Coordinator shall retain a record of the actions taken to prepare, check and approve each continuing disclosure reports and notices.

e. **Rating Agency Presentations.**

The Disclosure Coordinator and/or GM shall manage the process of preparing rating agency presentations for a financing in the same manner that he or she does for Official Statements, except that approval by the Board shall not be required.

f. **Continuing Disclosure Filings.**

Whenever the LiSWA makes statements or releases information relating to its finances to the public that reasonably expected to reach investors and the trading markets, the LiSWA is obligated to ensure that such statements and information are complete, true, and accurate in all material respects.

The LiSWA shall include a disclaimer on the LiSWA website:

“No information on the LiSWA’s website is intended to be the basis of or should be relied upon in making an investment decision. The information on this website is not posted for the purpose of reaching the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community. Because each security issues by the LiSWA or its related entities may involve different sources of payment and security, you should refer for additional information to the official statement and continuing disclosure filings for the particular security, which can be found on the Municipal Security Rulemaking Board’s Electronic Municipal Market Access website: <https://emma.msrb.org/>.”

g. **Training.**

The Disclosure Coordinator shall ensure that the members of the LiSWA staff involved in the initial or continuing disclosure process and the Board of Directors are properly trained to understand and perform their responsibilities. The Executive Director is responsible for ensuring that key LiSWA staff participates in the training.

The Disclosure Coordinator shall arrange for disclosure training sessions conducted by the LiSWA’s disclosure counsel. Such training sessions shall include education on these Disclosure Procedures, the LiSWA’s disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the LiSWA staff and members of the Board of Directors. Such training sessions may be conducted using a recorded presentation or written communication.

h. **Updates to Disclosure Procedures.**

The Disclosure Coordinator shall review the Disclosure’s Procedures annually and proposed updates to the Disclosure Procedures to the Program Manager, the GM, the Treasurer and the LiSWA Counsel as needed to address changes, including but not limited to changes in the LiSWA’s debt management program, financial reporting processes, or organizational structure. In addition, at any time all officers and employees of the LiSWA are invited and encouraged to make recommendations for

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changes to these Disclosure Procedures so that they foster better compliance with applicable law, result in better information to investors, or makes the procedures required by these Disclosure Procedures more efficient. Following receipt of any such recommendation, the Disclosure Coordinator shall consult with third parties, including outside professionals assisting the LiSWA and members of LiSWA staff, where appropriate, and shall determine whether such recommendation should be submitted as a proposal to Board of Directors.

i. **Documenting Compliance.**

The Disclosure Coordinator is responsible for establishing a system (which may involve the retention or one or more consultants) by which compliance with these Disclosure Procedures is documented.

j. **Waiver of Procedures.**

The Disclosure Coordinator may, with the approval of the GM, the Treasurer, LiSWA Counsel and the Program Manager, depart from this Disclosure Policy when he or she is in good faith determines that such departure is in the best interests of the LiSWA and is consistent with the duties of the LiSWA under federal and state securities laws.

k. **Internal Use Only.**

These Disclosure Procedures are intended for the internal use of the LiSWA only and are not intended to establish any duties in favor of or rights of any person other than LiSWA.

Policy Adopted: May 12, 2023

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