



Coachella Valley Water District Comprehensive Debt Management Policy

Relating to: Coachella Valley Water District and all Entities Formed Pursuant to the Mello-Roos Act and or Improvement Act(s) of 1911 and 1913 In Order to Issue Debt on Behalf of Coachella Valley Water District

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1. Introduction

Coachella Valley Water District (District) is an independent special district formed in 1918 with the initial purpose of protecting and conserving local water sources in the Coachella Valley. The District has gradually developed into a multi-faceted agency that delivers irrigation and domestic water, collects and recycles wastewater, provides regional storm water protection, replenishes the groundwater basin, and promotes responsible water practices.

The Comprehensive Debt Management Policy (Policy) sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, and method of sale that may be used. Adherence to a debt policy helps to ensure the District's debt is issued and managed prudently in order to maintain a sound fiscal position and ensure optimal credit ratings.

Purpose

The purpose of this Policy is to document and memorialize District standards in connection with Coachella Valley Water District obligations, including notes, bonds, loans, lease securities, and certificates of participation issued or delivered by the District, including Assessment District bonds and bonds issued by other entities controlled by the District, such as Community Facilities Districts formed pursuant to the Mello-Roos Act (CFDs) and Assessment Districts formed pursuant to the Improvement Acts of 1911 and 1913 (ADs).

The Policy as described herein is in accordance with current legislation and incorporates industry best practices. It has been devised to serve as a public representation of District objectives in relation to its use of any fixed rate debt, variable rate debt, public or privately placed debt obligation, interest rate swaps and/or other derivative transactions. The Policy is further intended to memorialize guiding directives from the District's Board of Directors (Board) to management and staff for decisions and recommendations related to the financial profile of the District.

2. Debt Issuances – General District Debt

Though the District has not issued any General District Debt, future issuances will primarily fund long-term capital improvement projects (New Money Debt) and refinance existing debt (Refunding Debt). Debt will be used to finance eligible projects as directed and approved by the Board. The method of sale, participants of the financing team, and types of debt to be issued are summarized below:

Method of Sale

The District will select the method of sale, which best fits the type of bonds being sold, market conditions, and the desire to structure bond maturities to enhance the overall

performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

1. Competitive sale. Bonds will be marketed to a wide audience of investment banking (underwriting) firms. The underwriter is selected based on its best bid for its securities. The District will award the sale of the competitively sold bonds on a true interest cost (TIC) basis. Pursuant to this policy, the General Manager, Assistant General Manager, and/or Director of Finance is hereby authorized to sign the bid form on behalf of the District, fixing the interest rates on bonds sold on a competitive basis.
2. Negotiated sale. The General Manager, Assistant General Manager, and/or Director of Finance selects the underwriter, or team of underwriters, to market the District's securities in advance of the bond sale, with approval by the Board. The Director of Finance works with the underwriter to bring the issue to market and negotiates all rates and terms of the sale. In advance of the sale, the General Manager, Assistant General Manager, and/or Director of Finance will determine compensation for and liability of each underwriter employed and the designation rules and priority of orders under which the sale itself will be conducted. Pursuant to this policy, the General Manager and/or Assistant General Manager is hereby authorized to sign the bond purchase agreement on behalf of the District, fixing the interest rates on bonds sold on a negotiated basis.
3. Private placement. The District may elect to issue debt on a private placement basis. Such method may 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 a financing be completed.

Roles and Responsibility

The primary responsibility for developing debt financing recommendations rests with the Director of Finance and General Manager. In developing such recommendations, the finance team shall consider the need for debt financing and assess progress on the current capital improvement program (CIP) and any other program/improvement deemed necessary by the District. The Board authorizes and approves debt financing and/or debt service related recommendations and proposals. All proposed debt financings shall be presented to and approved by the Board.

Bond Counsel

The District will retain external bond counsel for all debt issues. As part of its responsibility to oversee and coordinate the marketing of all District indebtedness, the Director of Finance and/or the General Manager will make recommendations for approval by the Board on the retention of bond counsel.

Bond counsel will prepare the necessary authorizing resolutions, agreements, and other documents necessary to execute the financing. All debt issued by the District will include a written opinion by bond counsel affirming that the District is authorized to issue the debt, stating that the District has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

Municipal Advisors

The District will select independent municipal advisors. While serving as the District's municipal advisor, a firm may not also engage in the underwriting of the District bond issue for which that firm acts as municipal advisor. A firm may not switch roles (i.e., from municipal advisor to underwriter) after a financial transaction has begun. Municipal advisors shall be selected through a competitive qualification process after a review of proposals by the Director of Finance, Assistant General Manager, and/or other staff, and is subject to approval by the Board.

During the contract term of any party acting as municipal advisor, neither the firm nor any individual employed by that firm will perform financial advisory, investment banking, or similar services for any entity other than the District in transactions involving a District financial commitment.

The municipal advisor will advise the District on refunding opportunities for current outstanding debt, as well as assist in evaluating the merits of competitive, negotiated, or private placement of new debt, and determining the most appropriate structure to ensure effective pricing that meets the District's near-term and long term cash flow needs. The municipal advisor will work with all parties involved in the financing transaction, including the District's bond counsel, trustee, underwriters, and credit liquidity providers, to develop and monitor the financing schedule and preparation of the Official Statement. The municipal advisor will assist the District in developing and distributing bid specifications for desired services, such as, trustee and paying agents, printing, remarketing, and credit liquidity service providers, and assist the District in its review process. The District also expects that its municipal advisor will provide objective advice and analysis, maintain confidentiality of the District's financial plans, and be free from any material conflict of interest.

Underwriters

For negotiated sales, the District will generally select or pre-qualify underwriters through a competitive process. This process may include a request for proposal or qualifications to firms considered appropriate for the underwriting of a particular issue or type of bonds. The Director of Finance and General Manager will determine the appropriate method to evaluate the underwriter submittals and then select or qualify firms on that basis. The District will not be bound by the terms and conditions of any underwriting agreements; oral or written, to which it was not a party.

New Money Debt

The District will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term investments, mitigating needed rate increases, and helping to ensure that existing and future ratepayers fund an appropriate share of long-lived assets. Long-term investments include the acquisition of land, facilities, works, improvements, and supplies of water; and enhancements or enlargements to existing capacity and facilities for obtaining, importing, transporting, and delivering additional quantities of water, including water reclamation, water recycling, and other water related infrastructure. These investments are typically included in the District's Capital Improvement Program. Bond proceeds can be issued to fund the planning, design, land acquisition, construction, attached fixtures or equipment and movable pieces or equipment, or other costs as permitted by law.

The District will issue New Money Debt only in the case where there is an identified source of repayment. Debt will be issued to the extent that (i) projected existing revenues are sufficient to pay for the proposed debt service together with existing debt service covered by such existing revenues, or (ii) additional revenues have been identified as a source of repayment in an amount sufficient to pay for the proposed debt (including anticipated revenues from future rate increases).

The District will not issue debt to finance ongoing operating needs except in case of an extreme financial emergency which is beyond its control or reasonable ability to forecast, and unless specifically approved by the Board.

Debt issuance for a capital project will not be considered unless such project has been incorporated into the District's capital planning process, or as otherwise approved by the Board.

State Revolving Funds

The State Revolving Fund (SRF) loan program is a low or zero interest loan program generally for the construction of wastewater treatment and sewage collection systems, water recycling facilities, storm water projects, implementation of nonpoint source and storm drainage pollution control management programs, estuary conservation and management programs, and other water infrastructure and programs made available by the State.

SRF loans are generally structured such that the District is required to contribute a percentage of the total project cost and receives loan proceeds from the State for the balance. The SRF loan interest rate is typically calculated by taking half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds sale. The term of the loans can be 20 or, if applicable, an extended financing term of 30 years. When compared to traditional bond financing, the District may realize savings as a result of the 20-year or 30-year amortization period of the SRF Loans, but should consider the timing and overall costs of administering an SRF loan as opposed to other forms of debt.

SRF Loans may provide additional assistance in the form of principal forgiveness, or may incorporate a grant component. Principal forgiveness must be specified at the execution of the loan agreement for the amount forgiven to be counted against the total loan required to be provided by the SRF.

Refunding Debt

Current and advance refundings are important debt management tools for the District. They are commonly used to achieve debt service (interest cost) savings, remove or change bond covenants, or restructure debt service obligations. Since the Federal Tax law allows only one advance refunding after the initial issuance, careful planning and timing must be used.

To the extent that debt having fixed interest rates originally structured with a long-term amortization structure (ten years or greater) is refunded with fixed rate debt, the District will not generally issue refunding debt which extends the final maturity of the refinanced debt. Extending the final maturity may occur when warranted, such as restructuring of debt to match debt amortization with the useful life of the financed assets.

Current Refunding

To the extent that a refinancing is a current refunding (one which occurs not more than 90 days from the call date of the refunded debt), the District will generally apply an expectation that the refunded debt will generate not less than 4 percent aggregate net present value savings, measured as a percentage of the par amount of the refunded bonds.

Advance Refunding

To the extent that a refinancing is an advance refunding (one which occurs more than 90 days from the call date of the refinanced debt), the general guideline will be to achieve a minimum of 5 percent aggregate net present value savings (measured as a percentage of the par amount of the refunded bonds) and that the ratio of net present value savings to the sum of net present value savings and negative arbitrage (this ratio is commonly referred to as “escrow efficiency” and is used as a guide in determining the amount of savings foregone in an advance refunding when escrow yields are less than the District’s borrowing cost) is not less than 75 percent.

Notwithstanding the above minimum, the overall target savings threshold for an advance refunding is 7 percent net present value savings as well as a minimum of 85 percent escrow efficiency.

Lower thresholds than those listed above may be justified if the refunding is being done for reasons other than economic savings, such as to make changes to bond covenants or for other sound business or policy reasons, and will be at the discretion of the Director of Finance in consultation with the District’s Municipal Advisor and bond counsel, and in consultation with the Assistant General Manager.

Other Refinancing/Refunding

To the extent that a refinancing involves either a prior issuance or new issuance of variable rate debt, the Finance Department will evaluate the refinancing based upon a combination of risk and economic considerations to be made at the time.

Financing Criteria

Revenue bonds, variable rate bonds, certificates of participation, SRF loans, federal loans or loan guarantees, bank loans, notes, commercial paper, and direct placements are authorized forms of debt to be considered by the District, subject to State Law. The weighted average useful life of the asset(s) or project shall exceed the payout schedule of any debt the District assumes.

In addition to the aforementioned long and short term financing instruments, the District may also consider joint arrangements with other governmental agencies. Communication and coordination will be made with local governments regarding cost sharing in potential joint projects, including leveraging grants and funding sources.

Each debt issuance should be evaluated on an individual basis within the context of the District's overall financing objectives, integration with the Capital Improvement Program, and current market conditions. The District will evaluate alternative debt structures (and timing considerations) to ensure the most cost-efficient financing under prevailing market conditions.

- Credit Enhancement – the District will consider the use of credit enhancement on a case-by-case basis, evaluating demonstrable savings, terms and conditions, market access, and investor expectations.
- Call Options/Provisions – In general, the District's securities should include optional call provisions, unless the cost of such an option is determined to exceed the benefit. The District will avoid the sale of non-callable, long-term fixed rate bonds, absent careful evaluation of the value of the call option.
- Additional Bonds Test/Rate Covenants – The amount and timing of debt will be planned to comply with the additional bonds tests and rate covenants outlined in the appropriate legal and financing documents, and this policy.
- Short-Term Debt – The District may utilize short-term borrowing to serve as a bridge for anticipated revenues, construction financing or future bonding capacity.
- Variable Rate Debt – Variable rate debt products are priced at the short-end of the yield curve at low interest rates compared to fixed-rate bonds, but subject to various risks. Variable rate debt may be appropriate for the District's portfolio, depending on market conditions and a careful consideration of the risks involved. Variable rate debt products include variable rate demand obligations, commercial paper, floating rate notes, and other obligations which have interest rates adjusting periodically. The District may consider the use of variable rate debt products to achieve a lower cost of borrowing or for short-term borrowing. In determining whether or not to use variable rate debt, the District will analyze the risk associated with the variable

rate debt, the impact on the District's overall portfolio, and means to mitigate those risks. The District will maintain a conservative level of outstanding variable debt in consideration of the District's current cash and reserve balances, in addition to maintaining adequate safeguards against risk and managing the variable revenue stream. The District will mitigate variable interest rate risks by maintaining sufficient unrestricted reserve funds to hedge against market access risk, liquidity risk, and interest-rate escalation risk.

- Derivatives – The use of derivatives may increase the District financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. Careful monitoring of such products is required to preserve District credit strength and budget flexibility. Derivatives will not be used to speculate on perceived movements in interest rates. The notional amount of derivative products shall not exceed 15% of total District outstanding debt. More detailed information is contained in Swap Policy Section 4.
- Investment of Bond Proceeds - Bond proceeds will be invested in accordance with the permitted investment language outlined in the bond documents for each transaction.

Internal Control Procedures

All debt transactions must be approved by the Board of Directors. The proceeds of bond sales will be invested until used for the intended project(s) in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of 1) safety, 2) liquidity, and 3) yield, and may be held as cash. The District's investment guidelines and bond indentures will govern objectives and criteria for investment of bond proceeds. The Finance Department will oversee the investment of bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

Bond proceeds will be deposited and recorded in separate accounts to ensure funds are not commingled with other forms of District funds. The District's Trustee or Fiscal Agent will administer the disbursement of bond proceeds pursuant to each certain Indenture of Trust or Fiscal Agent Agreement, respectively. To ensure proceeds from bond sales are used in accordance with legal requirements invoices are submitted by the Engineering Department and approved by the Finance Department and General Manager for payment. Requisition for the disbursement of bonds funds will be approved by the District's Director of Finance or designated alternate. Responsibility for general ledger reconciliations and records is segregated from the invoice processing, cash receipting, and cash disbursement functions.

The Finance Department will be tasked with monitoring the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued and exercising best efforts to spend bond proceeds in such a manner that the District will meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it can be demonstrated that 85% of the proceeds can reasonably be expected to be expended within the three-year temporary period.

3. Debt Issuances – Special District Financing

Pursuant to Section 53312.7 of the California Government Code, the Board of Directors of the Coachella Valley Water District hereby states its goals and policies concerning the use of Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (hereafter the "Act") in providing adequate public infrastructure improvements for the Coachella Valley Water District including, but not limited to, sewer, water, flood control and for the refunding of existing debt on land within the Community Facilities Districts "CFD." In addition, the Act may be used to provide for the maintenance, repair, reconstruction, and replacement of any of the foregoing infrastructure improvements. The following goals and policies shall apply to each CFD hereafter formed by the District. Any policy or goal stated herein may be supplemented or amended or deviated from upon a determination by the Board of Directors that such supplement, amendment, or deviation is necessary or desirable, and any policy or goal stated herein shall be deemed amended or supplemented in the event, and as of the date, if ever, that such amendment or supplement is required to ensure compliance with the Act or any other laws of the State of California or federal laws of the United States of America.

Financing Priority

Priority that Various Kinds of Public Facilities Shall have for Financing through the Use of the Act

It is the policy of the District to give first priority to the provision through the use of the Act of public infrastructure improvements benefiting the District, which improvements may include, but are not limited to, sewer, water, flood control, and for the refunding of existing debt on land within the CFD. It is secondarily the policy of the District to assist in the provision of other public facilities when to do so will, in the sole discretion of the Board of Directors acting as the legislative body of the affected CFD, result in a savings to taxpayers residing within or owning property within the District boundaries

Credit Quality and Evaluation Criteria

Credit Quality to be Required of Bond Issues, Including Criteria to be used in Evaluating the Credit Quality

It is the policy of the District to refrain from the issuance of any CFD bonds unless at the time of issuance of any CFD bonds, (i) special tax revenues from that CFD are reasonably expected to provide at least one hundred ten percent (110%) debt service coverage for each year of the term of such bonds; and (ii) such CFD establishes, and covenants to cause special taxes to be levied in an amount sufficient to maintain, for the term of such bonds (provided, however, that depletion may occur to pay debt service in the last two (2) years of such term), a reserve fund securing such bonds in an amount equaling the lowest of (i) ten

percent (10%) of the original proceeds of such bonds, or (ii) the largest amount, for any bond year during the term of such bonds, of principal and interest payable on such bonds, or (iii) one hundred twenty-five percent (125%) of the average amount payable, for any bond year, of principal and interest on the outstanding bonds of such bond issue. Further, it is the policy of the District to comply with all provisions of the Act including, but not limited to, Section 53345.8, as such Section may be amended from time to time. If the criteria set forth above are met, such bond issues need not be rated by nationally-recognized rating agencies.

Customer Protection Principle

The District will protect its customers and standing in the credit markets by managing and administering special districts in a prudent, efficient, and effective manner.

- Growth pays for growth. Property developers shall make an advance deposit to fund the cost to form the special district. The developer / property owner bears responsibility for all costs of the formation of the special financing district.
- The District's standing in the credit markets is paramount and must be preserved. The District seeks to form special districts with strong credit characteristics, as measured by:
 - At a minimum, a value-to-lien ratio of four-to-one (4:1), at time of bond sale;
 - Taxpayer delinquency level at or below five percent (5%) at time of bond sale;
 - The bond issuance includes a Reserve Fund Requirement;
 - A Letter of Credit requirement for property owner's responsible for a certain percentage of the tax levy, at least 20%, depending on the project.

Informing Prospective Property Purchasers

Steps to be Taken to Ensure that Prospective Property Purchasers are Fully Informed About Their Taxpaying Obligations

It is the goal of the District that all taxpayers residing within, or owning property within, the boundaries of a CFD heretofore or hereafter established by the District will receive the form of notice required by Section 53341.5 of the Act, at the time set forth therein, as such Section may be amended from time to time. In order to comply with this goal, it is the policy of the District to provide Section 53340.2 notice of special tax to any individual requesting such notice or any owner of property subject to a special tax levied by the District within five (5) working days of receiving a request for such notice.

Tax Allocation Formula Equity

Criteria for Evaluating the Equity of Tax Allocation Formulas, and Concerning Desirable and Maximum Amounts of Special Tax to be Levied Against Any Parcel

It is the goal of the District that each taxpayer residing within, or owning property within, the boundaries of any CFD hereafter established by the District pay special taxes which reflect, as nearly as practicable, such taxpayer's fair and reasonable share of their projected benefit from, and/or burden upon, the facilities to be constructed and/or maintained or of any refunding of existing debt within the CFD by such CFD. It is the goal of the District that maximum Mello-Roos special taxes on residential owner-occupied property, when taken together with ad valorem taxes, any other special taxes levied pursuant to the Act and assessments applicable to such property, do not exceed in any year two percent (2%) of the greater of the assessed value or appraised value of such property. Nevertheless, special taxes on residential owner-occupied property, when taken together with ad valorem taxes, any other special taxes levied pursuant to the Act and assessments applicable to such property, may exceed in any year two percent (2%) of the greater of the assessed value or appraised value of such property if the District determines at the time of formation of a CFD that over the term of the bonds, the special taxes, ad valorem taxes and assessments are expected to average two percent (2%) or less per year of the greater of the assessed value or appraised value of such property. It is further the policy of the District to comply with the provisions of Section 53321 of the Act with respect to the escalation of maximum taxes.

Appraisal Definitions, Standards, and Assumptions

Definitions, Standards, and Assumptions to be Used in Appraisals Required by Section 53345.8

- A. **General:** The appraiser undertaking the appraisal of real property in connection with the issuance of bonds of a CFD formed by the District shall be designated an MAI, Member of the Appraisal Institute, at the time of appraisal. He/she shall be an independent appraiser contractor and represent himself/herself to be well qualified to perform the appraisal services required. Such appraiser shall certify that he/she is thoroughly familiar with the recognized and acceptable appraisal methods, techniques and Standards of Professional Practice and Code of Ethics as set forth by the Appraisal Institute and Uniform Standards of Professional Appraisal Practice of The Appraisal Foundation.

In the preparation of the appraisal report the appraiser shall follow professional appraisal practices utilizing such methods and approaches to value as are appropriate for the specific property being appraised. Should certain approaches to value, or requirements covered in these specifications, not be applicable to the assignment at hand, the appraiser can fulfill the obligation herein by identifying that approach or requirement together with a brief explanation of its omission (i.e., an appraisal involving land only).

Generalizations and unsupported assumptions by the appraiser relating to the existence of infrastructure, utilities, improvements, grading, access, soil conditions,

topography, etc., and/or an estimated Highest and Best Use which differs from the present or permitted use and zoning are unsatisfactory in reports to be submitted relating to the issuance of CFD bonds . These items must be confirmed or justified by patterns of growth and demand trends, as indicated in the area, city and neighborhood analyses. As a minimum, the appraisal report must comply with the appraisal requirements set forth below.

The appraiser should use precise definitions of terms, as some readers of appraisals are from outside the real estate profession. Examples of definitions include bulk acreage sales, bulk discounts, aggregate retail value, quick sale valuation, etc.

B. **Appraisal Criteria**

The definitions to be used in appraisals required by Section 53345.8 of the Act shall include, but shall not be limited to, the following:

1. **Market Value** means the most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress. Fundamental assumptions and conditions presumed in this definition are:
 - i. Buyer and seller are motivated by self-interest.
 - ii. Buyer and seller are will-informed and are acting prudently.
 - iii. The property is exposed for a reasonable time on the open market.
 - iv. Payment is made in cash, its equivalent, or in specified financing terms.
 - v. Specified financing, if any, may be the financing actually in place or on terms generally available for the property type in its locale on the effective appraisal date.
 - vi. The effect, if any, on the amount of market value of atypical financing, services, or fees shall be clearly and precisely revealed in the appraisal report.
2. **Scope of the Appraisal** means it is the intent of the appraisal that all appropriate data considered pertinent in the valuation of the subject property be collected, confirmed and reported in conformity with the Uniform Standards of Professional Appraisal Practice.
3. **As Is** means the state of development of the subject property and the level of entitlements obtained with respect to the subject property as of the date of value of the appraisal.
4. **Fee Simple Interest** means absolute ownership unencumbered by any other interest or estate; subject only to the limitations of eminent domain, escheat, police power, and taxation.

The standards to be used in Appraisals required by Section 53345.8 of the Act are as follows:

1. The appraisal shall be prepared by an appraiser licensed by the State of California at the time of appraisal; and
2. The appraisal shall be prepared for the purposes of publication by any of the District, an underwriter or an authorized purchaser of bonds in connection with the contemplated CFD financing; and
3. The appraisal shall be consistent with a market absorption study, prepared by an experienced market absorption analyst, with respect to the development of the property which is the subject of the appraisal; and
4. The appraiser shall be the agent of the District rather than the agent of any developer in the subject CFD.

The assumptions to be used in the Appraisals required by Section 53345.8 of the Act shall include, but shall not be limited to, the following:

1. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances unless otherwise stated.
3. Responsible ownership and competent property management are assumed.

The contents of the appraisal report shall include, but shall not be limited to, the following:

1. Statement of Limiting Conditions and Assumptions.
2. Certification of Appraiser and Permission to Reproduce and Use Report as Required for Bond Issuance.
3. **Purpose of Appraisal.** This shall include the reason for the appraisal, a definition of all values required, and property rights appraised.
4. **Primary Assumption.** The appraiser will process the valuation of subject properties assuming only improvements which are completed as of the date of value or for which current financing has been irrevocably obtained, e.g., proceeds of current bond issue.
5. **Legal Description.** This description shall be complete so as to properly identify the property appraised.
6. **Property Data.** All information pertinent to the current state of the property shall be considered.
7. **Zoning.** Describe the zoning for the subject and comparable properties and if rezoning is imminent, discuss further.
8. **Analysis of Highest and Best Use.** The report shall state and support the highest and best use to which a property can be put and recognize that land is appraised as though vacant and available for development to its highest

and best use, and the improvements are based on their actual contribution to the site. If the highest and best use is based on a "Land Use" study provided by the developer, the appraiser's investigation and study supporting the conclusion that said land use is reasonable must be included in the report.

9. **Proposed Construction.** The report shall describe the construction in the manner proposed by the developer, based on the appraiser's study of construction drawings and/or interviews with engineers and architects responsible for project design which support such construction.
10. **Sales Comparison Approach to Value.**
 - i. Land-Direct Comparison. The appraiser's opinion of the value of the land shall be supported by confirmed sale prices of comparable, or nearly comparable, lands having like optimum uses.
 - ii. Subdivision or Developmental Approach. All variables contained within this approach shall be appropriately supported.
 - a. **Costs of Development – Land: Direct Costs.** All land improvement costs shall either be estimated by developer's independent civil engineer or, if based upon "in-house" estimates, these costs shall be presented in the report in sufficient detail so that they may be reviewed by a qualified civil engineer. Estimates made by appraiser or "rules of thumb" are not acceptable.
 - b. **Costs of Improvement - Structures.** Appraisers shall check for reasonableness the developer's costs of constructing structures for work in progress and cite sources of cost data.
 - c. **Discount Rates.** Appraisals should have an adequate discussion and support/reasoning for discount rate derivation.
11. **Value Estimate; Cost Approach, if Applicable.** This section shall be in the form of computative data, arranged in sequence beginning with reproduction or replacement cost, and shall state the name of the source of all cost estimates (i.e., engineering firm, contractor, cost estimating service, etc.). The dollar amounts of physical depreciation and functional and economic obsolescence, or the omission of same, shall be explained in narrative form.
12. **Income Approach to Value.** This approach should include a discussion on the leasing (rental) status of subject property (i.e., percent occupied, rental rates, concessions, terms, rental adjustments, etc.).
13. **Mass Appraisal Techniques.** It may be appropriate for projects that have built-out and occupied product to use mass appraisal techniques.
14. **Interpretation and Correlation of Estimates.** The appraiser shall interpret the foregoing estimates and shall state his/her reasons why one or more of the conclusions reached in Items 10 through 13 are indicative of the market value of the property.
15. **Value Allocations.** Appraiser should report values by ownerships or assessor parcel numbers. In CFDs where production units have been built and

sold/occupied, these separate ownerships may be grouped together by logical categories (e.g., by tract, etc.). These value allocations are necessary for preparation of the Official Statement for bond sale offerings.

16. **Exhibits.** The appraisal report must contain sufficient exhibits to assist the reader in understanding the appraisal.

4. Disclosure and Reporting Requirements

The purpose of these requirements is to ensure that the District, associated Financing Authorities, Assessment Districts, and the CFDs continue to comply with all applicable disclosure obligations and requirements under the federal securities laws.

In offering Obligations to the public, and at other times when the District makes certain reports, the District must comply with the “anti-fraud rules” of federal securities laws. (“Anti-fraud rules” refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934 (the “1934 Act”), and regulations adopted by the Securities and Exchange Commission under those acts, particularly Rule 10b-5 promulgated under the 1934 Act.)

The core requirement of these rules is that potential investors in Obligations must be provided with all “material” information relating to the offered Obligations. The information provided to investors must not contain any material misstatements and the District must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the District’s financial condition (or, in the case of CFD Obligations, the development within the CFD and other factors which may affect the willingness or ability of the property owners therein to pay special taxes when due). In the context of the sale of securities, a fact is considered to be “material” if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the securities being offered.

When the District issues Obligations, the two central disclosure documents which are prepared are a preliminary official statement (the “POS”) and a final official statement (the “OS” and, collectively with the POS, the “Official Statement”). The Official Statement generally consists of: (i) the forepart (which describes the specific transaction, including maturity dates, interest rates, redemption provisions, the specific type of financing, the security for the Obligations and other matters particular to the financing; (ii) a section or appendix which provides information on the District, including its financial condition as well as certain operating information (which may be property tax assessments or may be other District revenues depending on the type of Obligations being issued) (the “District Section”); and (iii) various other appendices, including the District’s audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking. With respect to CFDs, the Official Statement contains limited information about the District, as CFD Obligations are special obligations of the CFD and are not secured by any funds of the District, and instead contains a description of the Obligations and the special taxes securing the Obligations, a description of the CFD, the improvements and taxpayers therein, a property ownership and development section if the

CFD is not fully built out, a risk factors section containing risks specific to the CFD and CFDs in general, in addition to other sections. Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding the Obligations.

Disclosure Process

When the District determines to issue Obligations, the District's Director of Finance, or designee, requests the involved departments to commence preparation of the portions of the Official Statement (including particularly the District Section) for which they are responsible. While the general format and content of the Official Statement does not normally change substantially from offering to offering, except as necessary to reflect major events, the Director of Finance, or designee, is responsible for reviewing and preparing or updating certain portions of the District Section which are within such person's particular area of knowledge. Once the Official Statement has been substantially updated, the entire Official Statement is shared with the General Manager for review and input. Additionally, all participants in the disclosure process are separately responsible for reviewing the entire Official Statement.

Members of the financing team, including Bond Counsel and the District's Municipal Advisor with respect to the Obligations, assist staff in determining the materiality of any particular item, and in the development of specific language in the District Section. Members of the financing team also assist the District in the development of a "big picture" overview of the District's financial condition, included in the District Section. This overview highlights particular areas of concern. Bond Counsel has a confidential, attorney-client relationship with officials and staff of the District.

The Director of Finance or a member of the financing team at the direction thereof schedules one or more meetings or conference calls of the financing team (which includes District officials, Bond Counsel, the District's Financial Advisor, the underwriter of the Obligations, and the underwriter's counsel), and new drafts of the forepart of the Official Statement and the District Section are circulated and discussed. Such communications may occur via electronic means rather than by meetings or conference calls. During this part of the process, there is substantial contact among District staff and other members of the financing team to discuss issues which may arise, determine the materiality of particular items and ascertain the prominence in which the items should be disclosed.

Prior to distributing a POS to potential investors, there is typically a formal conference call which includes District officials involved in the preparation of the POS, members of the financing team and the underwriters and the underwriter's counsel, during which the Official Statement is reviewed in its entirety to obtain final comments and to allow the underwriters to ask questions of the District's senior officials. This is referred to as a "due diligence" meeting.

With respect to CFD Obligations, when a CFD is ready to issue bonds, the District's Director of Finance organizes the financing team to commence preparation of the Preliminary Official Statement. Typically the initial draft of a CFD Official Statement is assembled with input from Bond Counsel, Disclosure Counsel, Financial Advisor, Special Tax Consultant, Appraiser, Developer and Developer's Counsel and Underwriter. The Director of Finance reviews the draft

Preliminary Official Statement once distributed by Disclosure Counsel, specifically the information included with respect to the CFD and the formation thereof by the District. Once the Preliminary Official Statement has been distributed, one or more due diligence conference calls or meetings with the entire CFD financing team are held until the Preliminary Official Statement is finalized. Typically, prior to printing the Preliminary Official Statement, the Developer will be required to sign a “10b-5” certificate stating that the information in the Preliminary Official Statement provided by or pertaining to the Developer and its development within the CFD does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the Preliminary Official Statement in light of the circumstances under which they were made, not misleading.

A substantially final form of the POS is provided to the District Board of Directors in advance of approval of the POS. Doing so affords the Board of Directors an opportunity to review the POS, ask questions and make comments. The substantially final form of the POS is approved by the Board of Directors which generally authorizes certain senior staff to make additional corrections, changes and updates to the POS in consultation with the District’s general counsel and Bond Counsel.

When the POS is posted for review by potential investors, senior District officials execute certificates deeming certain portions of the POS complete (except for certain pricing terms) as required by Rule 15c2-12 promulgated under the 1934 Act.

Between the posting of the POS for review by potential investors and delivery of the final OS to the underwriter for redelivery to actual investors in the Obligations, any changes and developments will have been incorporated into the POS, including particularly the District Section, if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published.

In connection with the closing of the transaction, one or more senior District officials execute certificates stating that certain portions of the Official Statement, as of the date of each OS and as of the date of closing, does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the Official Statement in light of the circumstances under which they were made, not misleading. The District’s general counsel also provides an opinion letter advising the underwriters of the Obligations that information contained in the District Section (or specified portions thereof) as of its date did not, and as of the date of the closing, does not contain any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The District’s general counsel does not approve any financial, statistical, economic or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and certain other customary matters.

Annual Continuing Disclosure Requirements

In connection with the issuance of Obligations, including CFD Obligations, the District has entered into a number of contractual agreements (the “Continuing Disclosure Agreements”) to

provide annual reports with: (i) financial data; (ii) operating data; and (iii) audited financial statements (the District should consider whether it should no longer provide the District's entire comprehensive annual financial report rather than the audited financial statements alone). In addition, the Continuing Disclosure Agreements require the District to provide notice of certain events relating to the Obligations specified in the Continuing Disclosure Agreements. The District must comply with the specific requirements of each Continuing Disclosure Agreement. The District's Continuing Disclosure Agreements generally require that the annual reports be filed within 210 days after the end of the District's fiscal year (although securities law requires such annual reports only to be filed once each year), and event notices are generally required to be filed within 10 days of their occurrence. Such filings are to be made through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System over the Internet.

- Specific events which require "material event" notices are set forth in each particular Continuing Disclosure Agreement.
- The Director of Finance shall be responsible for preparing and filing the annual reports and event notices required pursuant to the Continuing Disclosure Agreements and for other secondary market disclosures as described under the caption "Secondary Market Disclosure". Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations).
- With respect to CFD Obligations, the Continuing Disclosure Agreements are prepared by the District's Special Tax Consultant(s) and reviewed by the Director of Finance and staff. The CFD Continuing Disclosure Agreements generally require that the annual reports be filed within eight months after the end of the District's fiscal year and include the District's comprehensive annual financial report and certain other operating data concerning the CFD itself.
- In addition to disclosing any failure to comply with prior Continuing Disclosure Agreements in each POS and OS (as discussed in the final bullet point under the heading "DISTRICT SECTION" and in the "CONTINUING DISCLOSURE" section of CFD POSs and OSs), the District must take steps to correct any such failure. Such steps could include filing amended annual reports, filing audited financial statements or providing notice of events specified in Continuing Disclosure Agreements.

The District's general counsel or Director of Finance will report to the District's Board regarding the execution by the District of any agreement or other obligation which might constitute a "financial obligation" for purposes of Rule 15c2-12. Amendments to existing District agreements or obligations with "financial obligation" which relate to covenants, events of default, remedies, priority rights, or other similar terms should be reported to the District's Board as well as soon as the District's general counsel or Director of Finance is placed on written notice by District staff, consultants, or external parties of such event or receives a written notice of such amendment requests. Director of Finance will determine, in consultation with the District's general counsel and with the assistance of Disclosure Counsel, whether such agreement or other obligation constitutes a material "financial obligation" for purposes of Rule

15c2-12. If such agreement or other obligation is determined to be a material “financial obligation” or a material amendment to a “financial obligation” described above, notice thereof would be required to be filed on EMMA within 10 business days of execution or incurrence. The types of agreements or other obligations which could constitute “financial obligations” and which could need to be reported on EMMA include:

1. Bank loans or other obligations which are privately placed;
2. State or federal loans;
3. Commercial paper or other short-term indebtedness for which no offering document has been filed on EMMA;
4. Letters of credit, surety policies or other credit enhancement with respect to the District’s publicly offered debt;
5. Letters of credit, including letters of credit which are provided to third parties to secure the District’s obligation to pay or perform (an example of this is a standby letter of credit delivered to secure the District’s obligations for performance under a mitigation agreement);
6. Capital leases for property, facilities, fleet or equipment; and
7. Agreements which guarantee the payment or performance obligations of a third party (regardless of whether the agreements constitute guarantees under California law).

Types of agreements which could be a “financial obligation” under the Rule include:

1. Payment agreements which obligate the District to pay a share of another public agency’s debt service (for example, an agreement with a joint powers agency whereby the District agrees to pay a share of the joint powers agency’s bonds, notes or other obligations); and
2. Service contracts with a public agency or a private party pursuant to which the District is obligated to pay a share of such public agency or private party’s debt service obligation (for example, certain types of P3 arrangements).

Types of agreements which may be a “financial obligation” subject to the Rule include:

1. Any agreement the payments under which are not characterized as an operation and maintenance expenses for accounting purposes if such agreement could be characterized as the borrowing of money;

The Director of Finance will continue to work with the District's general counsel and Disclosure Counsel to refine the definition of financial obligation going forward based on future SEC guidance.

Secondary Market Disclosure

On February 7, 2020, the SEC released a staff legal bulletin (the "Bulletin") concerning secondary market disclosure in the municipal bond market. The Bulletin included SEC staff views on a variety of matters, including but not limited to, the applicability of the federal securities law to public agency websites, reports delivered to governmental and institutional bodies and statements made by public officials including elected board members. Documents, reports and other written statements of the District which contains current financial and operational conditions of the District will be included in a section of the District's website appropriately identified. The District and its Disclosure Counsel have reviewed the Bulletin and have incorporated certain SEC staff recommendations into this Policy and into disclosure training for staff and Board members. The Bulletin requires District staff review. The District and its Disclosure Counsel will be cognizant of those reviews and will consider whether those reviews require the District to make secondary market disclosures.

Arbitrage Review

The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. District will fully comply with federal arbitrage and rebate regulations. Concurrent with this policy, the Director of Finance will take all permitted steps to minimize any rebate liability through proactive management in the structuring and oversight of its individual debt issues. All of the District's tax-exempt issues, including lease purchase agreements, are subject to arbitrage compliance regulations.

The Finance Department will be responsible for the following:

- Monitoring the investment of bond proceeds with awareness of rules pertaining to yield restrictions. Maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.
- Contracting the services of outside arbitrage consultants to establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.
- To the extent any arbitrage rebate liability exists, the District will report such liability in its annual Comprehensive Annual Financial Report.

5. SB 1029 Compliance

SB 1029, signed by Governor Brown on September 12, 2016, requires issuers to adopt debt policies addressing each of the five items below. The District believes this Policy is in compliance with SB 1029

A) The purposes for which the debt proceeds may be used.

Sections 2 (Debt Issuances – General District Debt) and 3 (Debt Issuances – Special District Financing) of this policy provide information regarding the purposes for which the District may spend debt proceeds.

B) The types of debt that may be issued.

Sections 2 (Debt Issuances – General District Debt) and 3 (Debt Issuances – Special District Financings) of this policy provides information regarding the types of debt CVWD may issue.

C) The relationship of the debt to, and integration with, the issuer’s capital improvement program or budget, if applicable.

Section 2 (Debt Issuances – General District Debt) of this policy provides information regarding the relationship between the District’s debt and Capital Improvement Program.

D) Policy goals related to the issuer’s planning goals and objections.

The body of this policy describes the District’s planning goals and objectives.

E) The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

Sections 2 (Debt Issuances – General District Debt) and 3 (Debt Issuances – Special District Financings) of this policy provide information regarding the District’s internal control procedures designed to ensure that the proceeds of a debt issuance are spent as intended.

6. Conclusion

The Policy was drafted with the intent of providing Coachella Valley Water District’s Board-approved guiding directives to management and staff for decisions and recommendations related to the financial profile of the District, and is intended to support the District’s debt obligations to present and future generations of customers. The Policy is intended to be revisited and updated periodically if there is a material change in the risk exposures or conditions.

The Policy is ultimately intended to serve as a guide and it in no way restricts the ability of the Coachella Valley Water District Board to review proposed rate actions, debt issuances, or other actions of substance to the District. The Board maintains

authorization to waive elements of the policy in connection with individual financings at its discretion.