

CASTAIC LAKE WATER AGENCY DEBT MANAGEMENT POLICY

The Agency's Strategic Plan states that the Agency will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term facility investments and thus ensure that existing and future users pay their fair share. The Agency's Strategic Plan also states that the Agency will maintain conservative reserve funding that covers at least three years of debt repayment and provides sufficient funds to cover likely circumstances.

This debt management policy includes the Agency's written guidelines and restrictions that affect the amount and type of debt issued, the issuance process and the management of the debt portfolio. This policy is designed to provide justification for the structure of debt issuance, identify policy goals and demonstrate a commitment to long-term financial planning.

Purposes and Use of Debt

The Agency will utilize reasonable debt financing as an acceptable and appropriate approach to fund long-term investments and thus ensure that existing and future users pay their fair share. 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. These investments are typically included in the Agency's Capital Improvement Program and Data Document. 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 Agency will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond its control or reasonable ability to forecast.

Types of Debt

Certificates of Participation, capital leases and lease-purchase financing will be treated as debt and subject to these same policies.

Debt Capacity

There is no specific provision within the California Government Code that limits the amount of debt that may be issued by the Agency. The Agency's future borrowing capability is limited by the debt coverage ratio required by the existing bond covenants. These covenants require that the Agency maintain reserves that provide three times debt service each year.

Debt Issuance Process

The Agency will seek to maintain and improve its bond rating to minimize borrowing costs and to ensure its access to credit markets. The Agency will maintain good relations with financial and bond rating agencies.

Each bond proposal will be accompanied by an analysis that demonstrates conformity to the Agency's debt policy. This analysis will discuss the purpose for which the debt is issued and the proposed debt structure.

Use of Credit Enhancements

Credit enhancement instruments include bond insurance, letters of credit and other such items. The Agency will use credit enhancement instruments in instances where the use is cost effective for marketing purposes.

Variable Rate Debt

Variable rate debt products are rolling series of short-term investments that are resold periodically and are therefore priced at the short-end of the yield curve at low interest rates. If an issuer accepts the risks inherent in variable interest rates, the issuer can take advantage of some of the lowest rates available on the market. Variable rate debt may be appropriate for the Agency's portfolio, especially in an environment where increased interest earnings on invested funds offset the increased cost of variable rate debt. Variable rate debt products include variable rate demand obligations, commercial paper, and auction rate securities.

The Agency 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 Agency will analyze the risk associated with the variable rate debt and the impact on the Agency's overall portfolio.

The notional amount of variable rate debt products, including derivative products, shall not exceed 25% of total Agency outstanding debt.

Use of Derivatives

The use of derivatives is covered by the Agency's Interest Rate Swap Policy adopted in August 2003. This policy states that it has been developed to guide the Agency in its use of interest rate risk mitigation products such as interest rate swaps and other such financing techniques. These financing products can increase Agency financial flexibility and provide opportunities for interest rate savings or enhanced investment yields. Careful monitoring of such products is required to preserve Agency credit strength and budget flexibility. Swaps will not be used to speculate on perceived movements in interest rates. The notional amount of derivative products shall not exceed 15% of total Agency outstanding debt. More detailed information is contained in the policy.

Disclosure

The Agency performs full disclosure by communicating with bond rating agencies to inform them of the Agency's financial condition.

Investment of Bond Proceeds

The investment of bond proceeds is covered by the Agency's Investment Policy.

Refunding Policy

The Agency will issue refunding bonds only if the net present value of debt service savings exceeds three percent of the amount of the refunded bonds.