DENVER WATER	
TITLE: **Denver Water Debt Management Policy**	
POLICY OWNER: **Chief Finance Officer**	
EFFECTIVE DATE: **August 25, 2021**	**PREVIOUS EFFECTIVE DATES:** **June 27, 2018**
ENTERPRISE POLICY APPROVED: DocuSigned by: Gary M. Reiff 964769B3F85A4EA... President	8/30/2021 Approval Date

I. GOVERNING AUTHORITY

This Debt Policy is approved by the Board of Water Commissioners in accordance with the constitution and laws of the State of Colorado, Article X of the Charter of the City and County of Denver, the Master Bond Resolution dated March 22, 2017, as amended and restated from time to time (Master Bond Resolution), and the authorizing resolutions for Parity Bonds.

II. GENERAL PROVISIONS

The Debt Policy establishes the objectives and practices of debt management and provides guidance in understanding the Board's philosophy on debt management. It is Denver Water's practice to:

- Evaluate its ability to repay current and future debt obligations;
- Maintain appropriate levels of financial flexibility;
- Maintain strong credit ratings and good investor relations;
- Achieve an optimal cost of capital;
- Manage interest rate and other related risks.

III. USE OF DEBT PROCEEDS

- Debt will primarily be used to fund Capital Improvements and to refund existing debt as defined in the Master Bond Resolution. Only costs that may be capitalized under generally accepted accounting principles are eligible for debt financing.
- When appropriate, Denver Water will use debt to achieve an equitable allocation of capital costs/charges between current and future system users.
- The Board has discretion to issue debt for purposes other than Capital improvements.

IV. DEBT LIMITS

- As an "enterprise" under Colorado constitutional provisions, Denver Water does not have revenue bond debt limits.
- Denver Water strives to maintain a Debt Ratio not exceeding 45% of the net capital assets.
- Unhedged variable rate debt is limited to 30% of Total Debt.
- The Board strives to maintain water rates at a level that will provide Net Revenues from the system sufficient to produce annual coverage of at least 1.80x of the current Annual Debt Service.
- The covenants in the Master Bond Resolution require Denver Water to maintain Net Revenues of no less than 1.1x the Annual Debt Service for existing debt and 1.20x to issue additional Master Resolution bonds.
- While the Board strives to maintain a higher coverage ratio than required by the bond covenants, the Board can exercise its discretion to adjust such targets during extraordinary circumstances such as drought, recession, etc.

V. DEBT STRUCTURE

- Long-term Debt: The Board generally issues long-term debt for financing capital assets that are long-term in nature. It is the intention of the Board that the term of the debt issued for capital expenditures should not exceed the useful life of the asset being financed.
- Short-Term Debt: The Board may utilize short-term debt for a number of purposes including financing cash flow requirements or providing capital financing in advance of a long-term debt issuance.
- Variable Rate Debt: The Board may issue variable rate debt when it is prudent based on the Board's existing mix of variable and fixed rate debt as evaluated against industry benchmarks. The Board will take into consideration the risks associated with variable rate debt, market rates at the time of issuance, and the Board's overall interest cost and risk profile.
- Derivative Instruments: If appropriate, derivative instruments such as interest rate exchange agreements may be used to reduce exposure to changing market conditions, to reduce interest costs, or for entity-wide risk control.
- Bonds and other financing instruments may be issued on a parity basis with existing revenue bonds or secured by a lien subordinate to Denver Water's outstanding Parity Bonds, as long as the debt limits and other financial parameters identified in this Debt Policy are maintained at levels defined under Debt Limits.

VI. PERMITTED FINANCING INSTRUMENTS

- Fixed rate revenue bonds
- Variable rate revenue bonds
- Fixed and variable rate notes
- State and federal loans and grants
- Bank lines of credit
- Capital leases
- Commercial paper

VII. DEBT ISSUANCE PRACTICES

- Each bond issue, loan, bank line of credit, commercial paper program or capital lease will be presented to the Board for authorization. Issuance of commercial paper and draws on revolving credit facilities are authorized by Board approval of short-term borrowing programs. The Chief Finance Officer or his/her designee may then take all actions necessary to cause the issuance of such short-term notes or draws on similar short-term borrowing facilities, and to fund, refund or reimburse expenditures related to Board approved capital projects and expenditures.
- The method of sale (competitive, negotiated or private placement) and the choice of insurers, sureties and counterparties will be made on a series by series basis by the CFO, under advice from professional advisors.

- The Board has the discretion to engage professional advisors such as a financial advisor, bond counsel, special (disclosure) counsel, underwriters, etc. to assist with the issuance and management of debt.
- Refunding of debt will generally be considered when the overall projected net present value savings is greater than 3.0% of the principal amount of debt to be refunded. Such refunding will consider the useful life of the asset originally financed to determine the term of the replacement debt.

VIII. DEBT MANAGEMENT PRACTICES

- Unspent debt proceeds may be invested or deposited in Permitted Investments, as defined in the Board's Investment Policy for The Water Works Fund.
- Denver Water will provide continuing disclosure as required by the Securities and Exchange Commission (SEC) Rule 15c2-12 and as set forth in the Continuing Disclosure agreement or undertaking entered into by the Board in connection with the issuance of debt.
- The Chief Finance Officer will comply with requirements of the Section 103 of the Internal Revenue Code of 1986, including arbitrage rebate monitoring and filing.
- Separate policy and procedures documents will guide the Board and the Chief Finance Officer in fulfilling requirements related to continuing disclosure and tax compliance.

IX. POLICY CONSIDERATIONS

The Chief Finance Officer is responsible for the administration and issuance of debt, in accordance with guidelines contained in this policy.

The Debt Policy shall be reviewed at least annually by the Chief Finance Officer. The Debt Policy shall be presented to the Board for approval of any changes, but no less frequently than every three years. If no changes are needed, the existing approved Debt Policy will remain in effect until the Board approves a recommended update to the Debt Policy.

Appendix A Definitions

Annual Debt Service - total annual principal and interest requirements for any outstanding Parity Bonds, the additional Parity Bonds proposed to be issued, the Capital Improvements Lease payments, and short term debt, if any.

Capital Improvements- the acquisition of land, easements, facilities, water rights and equipment (other than ordinary repairs and replacements), and the construction or reconstruction of improvements, betterments and extensions, for use by or in connection with the system.

Debt Ratio - Total Debt divided by the net fixed assets.

Gross Revenue - All income and revenues from whatever source, including total operating revenues, investment income, net other income, proceeds from contributions in aid of construction, proceeds from system development charges and proceeds from sale of capital assets, calculated in accordance with generally accepted accounting principles for the 12 month period ending on the date of the calculation.

Net Revenue - the Gross Revenue after deducting the operating expenses net of depreciation and amortization expense, calculated in accordance with generally accepted accounting principles for the 12 month period ending on the date of the calculation.

Parity Bonds - any securities issued pursuant to the Provisions of Master Bond Resolution.

Total Debt - A sum of notes payable, revenue bonds payable, certificates of participation, obligation under capital lease, current portion of revenue bonds payable, current portion of obligations under capital lease and any accrued interest on long-term debt.