



6075 Kimball Avenue Chino CA 91708 909 993-1600 www.ieua.org

DEBT MANAGEMENT POLICY

INLAND EMPIRE UTILITIES AGENCY
DEBT MANAGEMENT POLICY
January 2026

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Policy Statement

This Debt Management Policy is established to support the Inland Empire Utilities Agency's (Agency) long-term financial sustainability and strategic objectives. All debt issuance shall be evaluated within the context of the Agency's multi-year financial forecasts and Ten-Year Capital Improvement Plan (TYCIP). Debt decisions will be coordinated with the annual budget process to ensure alignment with infrastructure priorities, affordability metrics, and reserve policies. This policy serves as a framework for prudent borrowing that complements the Agency's broader financial planning efforts. The Agency will fund water and sewer infrastructure, projects, and other financing needs issued or delivered by the Agency and debt instruments issued by other entities controlled by the Agency including the Chino Basin Regional Financing Authority, through a balanced approach that includes current revenues, available reserves, and strategically issued debt.

Debt is recognized as a valuable tool to equitably finance long-lived assets, ensuring that both current and future customers share in the benefits and costs of essential infrastructure.

Debt will be considered for financing needs only when:

- It promotes equitable treatment of all customers, present and future
- It is fiscally prudent, responsible, and appropriate under prevailing economic conditions
- It serves other important policy objectives identified by the Agency

No debt shall be issued without formal approval from the Board of Directors (Board).

To achieve the highest practical credit ratings and demonstrate sound financial stewardship, the Agency is committed to systematic capital planning, and long-term financial planning. This commitment is evidenced by the adoption and regular update of the Ten-Year Capital Improvement Plan, which outlines the benefits, costs and funding strategies for each planned capital improvement for the succeeding ten years. Capital projects included in the Ten Year Capital Forecast are typically first identified in the Agency's long term planning documents, including the Wastewater Facilities Master Plan, Asset Management Plan, Recycled Water Program Strategy, and Integrated Water Resources Plan.

Purpose of this Debt Management Policy is to:

- Establish clear parameters for and guidelines for the issuance and management of debt
- Provide guidance to decision makers:
 - With respect to available financing options for infrastructure, projects, and other funding needs,
 - Ensure the selection of financing methods that are prudent, equitable and cost-effective
- Promote objectivity and consistency in the debt decision-making process.
- Preserve flexibility for the Agency to respond to evolving service priorities, revenue conditions, and operating demands

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The Agency will adhere to all applicable legal and regulatory requirements when issuing public debt, including:

- State law authorizing the issuance of debt
- Federal law governing tax-exempt eligibility, when applicable
- Federal and state laws regulating disclosure, sale, and trading of the debt before and after issuance
- Compliance with Generally Accepted Accounting Principles (“GAAP”)

To assess the effectiveness of its debt management practices over time, the Agency will monitor and report the following performance metrics annually to the Board of Directors

- Debt Service as a Percentage of Total Expenditures (Target: 10–15%)
- Debt per Capita (Benchmark against peer agencies)
- Bond Ratings (Maintain AA or higher)
- Debt Service Coverage Ratio (Minimum 1.25x for revenue-backed debt)
- Variable-Rate Debt Exposure (Limit to $\leq 30\%$ of total outstanding debt)
- Spend-Down Compliance Rate ($\geq 85\%$ of proceeds spent within 3 years)
- Rebate Liability Trend (Track arbitrage rebate payments)
- Timeliness of Disclosure Filings (100% on-time Electronic Municipal Market Access submissions)

These metrics will serve as key indicators of fiscal health, policy adherence, and strategic alignment, and will guide future debt-related decisions.

Purpose and Use of Debt

The Agency recognizes debt as a strategic financing tool to support long-term capital improvements that enhance service delivery and infrastructure resilience. Long-term improvements include the acquisition of land, facilities, infrastructure, and water supplies, as well as the expansion or enhancement of existing water and sewer capacity and facilities. Eligible costs include planning, pre-design, design, land and/or easement acquisition, construction, and related fixtures, equipment and other legally permissible expenditures. The Agency will not issue debt to cover operating needs, unless explicitly approved by the Board.

The Agency may issue shorter-term debt to finance certain essential equipment and vehicles, with repayment terms consistent with the useful lives of the assets and in compliance with federal tax law. These assets range from service vehicles to laboratory equipment. The underlying asset must have a minimum useful life of one year or more. Short-term financings, including loans, on bill financing and capital lease purchase agreements, are executed to meet such needs.

The Assistant General Manager or Designee (AGM) (designated by the AGM) will periodically evaluate the Agency’s outstanding debt portfolio and may initiate re-financing or prepayment (refunding) opportunities when economically beneficial. All such actions require approval from the General Manager

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who holds final decision-making authority. Refinancing may include the issuance of bonds to refund existing obligations or to restructure other forms of debt, such as commercial paper or loans.

Any proposal involving the issuance or refunding of debt including the sale of securities, execution of loans or leases, or extension of credit guarantees must be reviewed by the Assistant General Manager or Designee (designated by the AGM) is responsible for evaluating the financial merits of the proposal, ensuring alignment with the Agency's long-term financial planning objectives, and safeguarding the Agency's credit ratings as assigned by the major credit rating agencies.

Debt proceeds shall be used exclusively for the purposes authorized at the time of issuance. No debt shall be issued without formal Board approval and appropriation of sufficient funds to meet principal and interest obligations. Furthermore, the maturity of any debt shall not exceed the weighted average useful life of the assets being financed. The final maturity of any debt obligation including bonds, State Revolving Fund (SRF) loans, or Water Infrastructure Finance and Innovation Act (WIFIA) loans shall be limited to 30 years from the date of issuance, but may extend up to 35 years when justified by the useful life of the facilities or improvements being financed and when consistent with applicable legal and financial guidelines.

Debt Management

While the California Government Code does not impose specific limits on the amount of debt that the Agency may issue, the Agency remains committed to disciplined financial oversight and responsible borrowing practices. The Agency will provide for periodic reviews of its financial performance and evaluate its adherence to the financial policies outlined herein. These financial policies will inform capital planning, budgeting, and the rate setting process. Necessary appropriations for annual debt service obligations will be routinely incorporated into the Agency's budget. To ensure continued access to capital markets at the most favorable interest rates, the Agency will maintain proactive communication with the investment community, including rating agencies, credit enhancers and investors.

The Agency's Debt Management Policy, Reserve Policy and Investment Policy are integrated into the unified decision-making framework utilized in the budgeting and capital improvement planning process. The following principles guide the Agency's approach to debt management:

- ***Identified Source of Repayment.*** Debt will only be issued when a reliable source of repayment has been identified. This may include (i) projected existing revenues sufficient to cover both current and proposed debt service or (ii) additional revenues have been identified to support the proposed obligation.
- ***Restriction on Operating Debt.*** Debt shall not be issued to fund operating needs, unless explicitly approved by the Board.
- ***Appropriate Term and Structure.*** Debt will be structured for the shortest practical term that ensures a fair allocation of costs between current and future users. The duration of any borrowing shall not exceed the useful life of the improvement being financed and, where

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feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 20-35 years.

- **Interest Rate Structure.** The Agency may issue debt instruments on a fixed and variable interest rate basis. Fixed rate securities offer budget certainty through the life of the securities and can be advantageous in a low-interest rate environment. Variable-rate instruments may be considered when appropriate, including those tied to predetermined formulas or subject to periodic remarketing. In connection with each debt issuance, the Agency and its Municipal Advisor will analyze the benefits and considerations of each type of interest rate structure to determine the method most appropriate and advantageous to the Agency.

Bond proceeds will be invested until expended for the intended project(s) in order to maximize utilization of the public funds. Investments will prioritize safety and comply with the Agency's Investment Policy, the specific provisions of each bond indenture and State law. The Assistant General Manager or Designee (designated by the AGM) will oversee the investment of bond proceeds with the objective of minimizing negative arbitrage over the life of the bond issuance, while ensuring full compliance with applicable tax and arbitrage provisions.

To maintain financial integrity, bond proceeds will be deposited into separate accounts to prevent commingling with other Agency funds. Disbursements will be administered by the Agency's trustee in accordance with the Indenture of Trust. Requisitions for disbursement must be approved by the Agency's General Manager and/or Assistant General Manager or Designee (designated by the AGM).

The Assistant General Manager or Designee (designated by the AGM) will monitor dedicated debt reserve fund balances and periodically evaluate opportunities for prepayment or refunding of outstanding debt. Refunding will only be pursued when the financial benefits outweigh the cost of issuing new debt. Such evaluations will consider the timing of new capital projects, market conditions, and the overall impact on the Agency's financial position.

Refunding may be undertaken to achieve one or more of the following objectives:

- Reduce future interest costs; Restructure or reduce future debt service in response to evolving conditions regarding anticipated revenue sources and lower market interest rates; and
- Restructure the legal requirements, termed covenants of the original issue to reflect more closely the changing conditions of the Agency or the type of debt.

Debt Coverage Target

The Agency will only pursue debt financing when the resulting debt ratios, inclusive of existing obligations, remain within acceptable debt ratios. Prior to issuing revenue bonds, the Agency will conduct a comprehensive affordability analysis comparing projected annual net revenues defined as revenues remaining after payment of operating and maintenance (O&M) expenses to estimated annual debt service

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requirements. This analysis will include calculation of the Debt Coverage Ratio (DCR), which measures the cash flow available to meet annual principal and interest payments.

The Agency must also comply on an ongoing basis with minimum debt coverage targets, pledged to lenders under a rate covenant. The Agency has different rate covenants for its publicly issued bonds and its SRF loans. The Agency's public bond covenants require a minimum legal DCR of 120% for senior bonds and a combined coverage ratio of at least 125% for senior and subordinate debt. The Agency's outstanding SRF loans have differing rate covenants, all of which must be satisfied individually. In general, the Agency's SRF loans have rate covenants which require a minimum Debt Coverage Ratio of the greater of: i) 115% of maximum annual debt service on all senior and subordinate debt, ii) 120% of 5-year maximum annual debt service on all senior and subordinate debt and iii) 125% of total annual debt service. When appropriate and as needed, the Agency will require a rate increase to cover both O&M and debt service obligations and establish debt service reserve funds to support the legally required DCR. The Agency's objective is to maintain a DCR above the legally required minimum to preserve strong credit ratings and financial flexibility.

Debt Instrument Rating

The Assistant General Manager or Designee (designated by the AGM), with advice from a Municipal Advisor as appropriate, will evaluate the need for a credit rating on each proposed debt issuance and provide a recommendation to the Board. If a credit rating is deemed beneficial, the Agency will assess the probable rating prior to issuance and take necessary steps in structuring the debt to achieve the highest possible rating.

Debt Structuring

The Agency will structure debt to achieve level aggregate principal and interest payments over the life of the borrowing. Alternative structures, such as "Backloading" of debt service may be considered when such structuring is beneficial to the Agency's overall debt profile.

Call options will be used unless there is a compelling reason to exclude them. A call option, or optional redemption provision, allows the Agency the right to redeem debt prior to maturity, potentially enabling future interest savings through refunding. The decision to include a call option will be based on an evaluation of factors, such as call premiums, time of call eligibility, and interest rate volatility. Typically, 30-year tax-exempt municipal borrowings include a 10-year call at no premium, though, shorter call options (5-9 years) may be used when deemed advantageous by the Agency and its Municipal Advisor.

Types of Debt

The Agency may utilize a broad range of financing instruments to support its capital and infrastructure needs. These include, but are not limited to:

- Revenue bonds
- Variable rate bonds
- State Revolving Fund (SRF) loans

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- Water Infrastructure Finance and Innovation Act (WIFIA) loans
- Bank loans and notes
- Commercial paper
- Direct placements
- Capital leases and lease-purchase agreements
- Securitization and on-bill financing

The weighted average useful life of the asset(s) or project shall exceed the term of any debt obligation assumed by the Agency. Definitions of each type of debt are provided in Appendix A.

In addition to traditional long- and short-term financing instruments, the Agency may pursue joint financing arrangements with other governmental agencies. Communication and coordination will be undertaken with local governments regarding cost-sharing opportunities in potential joint projects and leverage external funding sources, including leveraging grants.

The Agency is also authorized to participate in the formation of a Joint Powers Authority (JPA) with other special districts and municipalities for the purpose of issuing debt. In such cases, the Agency will be responsible for its proportionate share of debt service, as defined in the governing agreement.

Credit Enhancement

To improve or secure favorable credit ratings, the Agency may utilize credit enhancement tools such as Letters of Credit, bond insurance or surety policies. The Assistant General Manager or Designee (designated by the AGM) will recommend the use of credit enhancement to the Board when it is expected to reduce the overall cost of the proposed financing or advance the Agency's broader financial objectives. Recommendations will be made in collaboration with the Assistant General Manager or Designee (designated by the AGM), as appropriate.

Debt Service Reserve Fund/Surety Policy

The Assistant General Manager or Designee (designated by the AGM), with counsel from the Agency's Municipal Advisor, bond counsel, and underwriter, will determine whether it is prudent and cost-effective to fund a debt service reserve fund. The Agency may issue debt without a funded debt service reserve surety if market pricing will not be negatively impacted. Debt reserves will be maintained in accordance with the Agency's Reserve Policy.

Capitalized Interest

Generally, interest may be capitalized for the construction period of a revenue-producing project, such that debt service expense does not begin until the project is expected to be operational and producing revenues. In addition, for lease back arrangements, such as those used for lease revenue bond transactions, interest may be capitalized for the construction period, until the asset is operational. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period. Capitalized interest is sometimes referred to as "funded interest."

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Credit Ratings

The Agency will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the Agency's policy objectives. Ratings are one reflection of the general fiscal soundness of the Agency and the capabilities of its management. By maintaining the highest possible credit ratings, the Agency can issue its debt at a lower interest cost. To enhance creditworthiness, the Agency is committed to prudent financial management, systematic capital planning, and long-term financial planning.

The Agency recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the Agency's debt rating on outstanding debt.

Rating Agency Relationships

The Agency is committed to maintaining constructive relationships with the major credit rating agencies; Standard & Poor's, Moody's Investors Service, and Fitch Investors Service, as appropriate. These relationships are essential to preserving access to capital markets and securing favorable borrowing terms. To support this effort, the Agency will provide periodic updates both formal and informal on its general financial condition, strategic initiatives, and capital planning. Meetings and presentations will be coordinated in conjunction with new debt issuances or as requested by the rating agencies. Written disclosure documents to the rating agencies will be prepared and submitted by the Finance and Accounting Department.

The decision to retain a rating agency relationship will be based on a cost-benefit analysis, weighing the potential for more favorable interest costs against the direct and indirect cost of maintaining that relationship.

Bond Ratings

The Assistant General Manager or Designee (designated by the AGM) in consultation with the Agency's Municipal Advisor, will evaluate whether a rating should be obtained on a particular financing. If a rating is deemed beneficial, the Assistant General Manager or Designee (designated by the AGM) will recommend which of the major rating agencies should be engaged and ensure that the debt structure supports the best possible rating outcome.

Method of Sale

The Agency will select the method of bond sale that best aligns with the type of debt being issued, prevailing market conditions, and the strategic objectives of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

- I. ***Competitive sale.*** Bonds are offered to a broad group of underwriting firms, with the winning bid selected based on the lowest true interest cost (TIC). Pursuant to this policy, the General Manager and/or Assistant General Manager or Designee (designated by the AGM) is hereby authorized to

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accept the winning bid on behalf of the Agency, thereby fixing the interest rates on competitively sold bonds.

- II. ***Negotiated sale.*** The Assistant General Manager or Designee (designated by the AGM) selects an underwriter, or team of underwriters in advance of the sale. The Assistant General Manager or Designee (designated by the AGM) works with the underwriter to structure the issue and negotiate rates and terms. Prior to the sale, the Assistant General Manager or Designee (designated by the AGM) will determine compensation, liability of each underwriter employed and order the designation rules. Pursuant to this policy, the General Manager and/or Assistant General Manager is hereby authorized to execute the bond purchase agreement on behalf of the Agency.
- III. ***Private placement.*** The Agency may elect private placement financing when it offers cost savings, operational advantages, or when public markets are constrained. This method may be used to expedite financing under time-sensitive conditions or when market volatility limits broader issuance options.

Governance and Oversight

The Assistant General Manager or Designee (designated by the AGM) holds primary responsibility for developing debt financing recommendations. In developing such recommendations, the Assistant General Manager or Designee (designated by the AGM) shall assess the need for debt financing and assess progress on the current capital improvement program or plan (CIP) and any other program/improvement deemed necessary by the Agency.

All debt proposals must be reviewed by the Finance, Legal, and Administrative Committee and approved by the Board of Directors. New bond issues will be executed through the Chino Basin Regional Financing Authority (CBRFA) under an Installment Purchase Agreement between the CBRFA and the Agency. The Installment Purchase Agreement outlines the Agency's pledge of designated revenues, the establishment of rates and charges sufficient to meet debt obligations, and the terms of repayment.

All debt shall be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State of California Government Code (CGC) §54300 et seq.

To ensure transparency in all aspects of debt issuance and administration, the Agency has implemented the following practices:

- ***Public Disclosure of Debt Plans*** All proposed debt issuances will be presented in public board meetings, with supporting documentation including purpose, structure, repayment terms, and projected impact made available on the Agency's website.
- ***Annual Debt Report*** A comprehensive Debt Report will be published annually as part of the Agency's Annual Comprehensive Financial Report (ACFR). This report will include:

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- Outstanding debt by type and maturity
- Debt service schedules
- Key performance metrics (e.g., debt per capita, coverage ratios)
- Compliance with policy limits and benchmarks
- ***Real-Time EMMA Filings*** All required continuing disclosure documents, including audited financials and material event notices, will be filed promptly with the Electronic Municipal Market Access (EMMA) system to ensure investor access.
- ***Third-Party Verification*** Independent Municipal Advisors and bond counsel will review all debt transactions to ensure compliance with applicable laws and best practices.

Bond Counsel

The Agency will retain external bond counsel for all debt issuances. As part of the responsibility to oversee and coordinate the marketing of all Agency indebtedness, the Assistant General Manager or Designee (designated by the AGM) shall recommend bond counsel appointments for Board approval.

Bond counsel will be responsible for preparing all necessary authorizing resolutions, agreements, and related documents required to execute the financing. In connection with debt issued by the Agency or on behalf of the Agency, bond counsel will deliver regarding the Agency's authority to incur the obligation, compliance with all applicable state constitutional and statutory requirements, and the federal income tax treatment of interest with respect to the obligations.

Municipal Advisor

The Agency will select a Municipal Advisor who may either be independent consultants or firms involved in municipal bond underwriting or brokerage services. However, any firm serving as Municipal Advisor for a specific bond issue may not act as underwriter for that same transaction, nor may it switch roles once the financing process has commenced. The Municipal Advisor will be selected through a competitive process following a review of proposals by the Assistant General Manager or Designee (designated by the AGM).

During the contract term of any party acting as Municipal Advisor, neither the firm nor its employees will perform financial advisory, investment banking or similar services for any entity other than the Agency in transactions involving Agency financial commitments without the explicit direction of the Agency's Assistant General Manager or Designee (designated by the AGM).

The Municipal Advisor will advise the Agency in identifying refunding opportunities for current outstanding debt, evaluating the merits of competitive, negotiated or private placement sales of new debt, and recommending optimal debt structures that support both short- and long-term cash flow needs. The Municipal Advisor will collaborate with all parties involved in the financing transaction including bond counsel, trustees, underwriters, and credit/liquidity providers to develop and manage the financing schedule and prepare the Official Statement. Additionally, the Municipal Advisor will support the Agency in developing and distributing bid specifications for desired services such as, trustee and paying

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agents, printing, remarketing and credit liquidity service providers, and will assist the Agency in the review process. The Agency also expects its Municipal Advisor to offer objective advice and analysis, maintain confidentiality of the Agency's financial plans, and operate free from any conflicts of interest.

Underwriters

For negotiated sales, the Agency will generally select or pre-qualify underwriters through a competitive process. This process may involve issuing a request for proposals or qualifications to all firms deemed suitable for underwriting a specific bond issue or type. The Assistant General Manager or Designee (designated by the AGM) will determine the appropriate evaluation method and select or qualify firms accordingly. The Agency will not be bound by the terms and conditions of any underwriting agreement, oral or written, to which it was not a party.

Federal Arbitrage and Rebate Compliance

The Agency will maintain full compliance with federal arbitrage and rebate regulations. In alignment with this policy, the Assistant General Manager or Designee (designated by the AGM) will take all permitted steps to minimize any rebate liability through proactive structuring and oversight of each debt issuance. All of the tax-exempt debt issued by the Agency, including lease purchase agreements, are subject to arbitrage compliance regulations.

The Department of Finance shall be responsible for the following:

- I. Monitoring the expenditure of bond proceeds to ensure they are used solely for their authorized purposes. The Agency shall meet one of the spend-down exemptions from arbitrage rebate. Tax-exempt bonds will not be issued unless it is reasonably expected that at least 85% of proceeds will be expended within the three-year temporary period.

Overseeing the investment of bond proceeds with attention to yield restrictions rules. This includes maintaining detailed investment records, including purchase prices, sale prices and comparable market prices for all securities.

- II. Engaging external arbitrage consultants to establish and maintain a system for recordkeeping and reporting that meets the federal tax code requirements for arbitrage rebate compliance.

Any arbitrage rebate liability will be disclosed in the Agency's Annual Comprehensive Financial Report (ACFR).

Continuing Disclosure

The Agency will comply fully and promptly with secondary disclosure obligations as required under Securities and Exchange Commission (SEC) Rule 15c2-12 and in accordance with its Disclosure Procedures Policy. Responsibility for submitting ongoing disclosure materials to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system the SEC-

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designated repository for municipal issuer disclosures shall rest with the General Manager and/or Assistant General Manager or Designee (designated by the AGM). Each year, the Agency will submit its financial statements and operating data within 270 days following the close of its fiscal year. Additionally, the Agency will disclose the occurrence of certain listed events related to its bonds, as required under the terms of the Agency's continuing disclosure undertakings, in compliance with the terms of the Agency's continuing disclosure undertaking.

The Agency will keep current with any changes in both the administrative aspects of its filing requirements and the national repositories responsible for ensuring issuer compliance with the continuing disclosure regulations. In the event a 'listed event' occurs requiring disclosure under the terms of the Agency's continuing disclosure undertakings, the Agency will ensure information flows to the appropriate disclosure notification parties.

Compliance with Bond Covenants

In addition to financial disclosure and arbitrage compliance, the Agency is responsible for ongoing verification of all undertakings, covenants, and agreements associated with each bond issuance. This includes but is not limited to:

- Annual appropriation of revenues to meet debt service obligation
- Ensuring timely transfer of debt service payments to the trustee or paying agent
- Maintaining compliance with insurance requirements
- Compliance with rate covenants, where applicable
- Compliance with all other bond covenants

Each year, the Finance and Accounting Department will prepare all required debt related schedules and footnotes for inclusion in the Agency's ACFR. The ACFR will detail all funds and fund balances established through direct debt financing and may include a report on any material or rate covenants associated with the Agency's offerings, along with a statement of compliance.

Policy Review

This Policy will be updated and revised by the Assistant General Manager or Designee (designated by the AGM) on an as-needed basis. All proposed changes shall be reviewed by the Finance, Legal, and Administrative Committee and formally adopted by the Board.

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APPENDIX “A”

Definitions of Types of Debt

Bank Loans and Notes

Short-term borrowing through bank loans or notes will be considered only when available cash or reserves are insufficient to meet both project needs and current financial obligations.

Capital Lease

Capital lease financing may be used for capital improvements, including vehicles and equipment with an expected useful life of less than ten years. In a capital lease, the lessor provides financing and ownership rights transfer to the Agency over the lease term.

Derivatives

The Agency may enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities, or other instruments with synthetically determined interest rates, as permitted by applicable statutes. Use of derivative products will be evaluated on a case-by-case basis, ensuring alignment with state statute and financial prudence. Prior to execution, the Agency will assess the risks, benefits, and long-term financial impacts, and prepare a report to be presented to the Board of Directors through the Finance, Legal and Administration Committee for approval.

Lease-Purchase Financing

Lease-purchase agreements may be used to acquire vehicles, equipment, and or other capital assets when operational or cash-flow constraints limit other financing options. While the total cost of lease-purchase financing is typically higher than alternatives such as pay-go or traditional debt, it may be appropriate under certain conditions.

On Bill Financing

The Agency may participate in low- or zero-interest financing agreements offered by utility providers. These agreements allow for the financing of business improvements with minimal fees or interest. Repayment is based on projected savings associated with the project and will be part of the monthly bill received from the issuer. Financing terms typically range from three to ten years depending on the project to be financed.

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Revenue Bonds

Revenue bonds are long-term obligations issued to fund capital projects. The Agency generally issues revenue bonds with fixed interest rates, which remain constant throughout the life of the bonds. In certain conditions variable interest rate bonds may be considered, with interest rates resetting periodically (e.g., daily, weekly, monthly, etc.). These bonds are repaid solely from Agency revenues, in accordance with the terms outlined in the bond covenants.

Variable Rate Debt

Variable rate debt may be used to diversify the Agency's debt portfolio, reduce borrowing costs, provide interim capital funding, and better align assets with liabilities. Typically, this debt carries lower interest rates and shorter effective maturities (7 to 35 days). The Agency will maintain a conservative level of outstanding variable rate debt, not exceeding 30% of total outstanding debt, and will implement safeguards to manage associated risks. Under no circumstances will the Agency issue variable rate debt solely for the purpose of earning arbitrage.

Short Term Debt

Prior to issuing long-term bonds, the Board may authorize short-term borrowing to address temporary funding of operational cash flow deficits or bridge anticipated revenues. Anticipated revenues must be based on conservative and assured estimates. The Assistant General Manager or Designee (designated by the AGM) will determine and utilize the most cost-effective borrowing method. All short-term debt must be authorized by Board resolution.

These short-term notes may be structured as:

- Bond Anticipation Notes (BANs) - Short term obligations repaid from the proceeds of a future long-term bond issue. The Agency may choose to issue Bond Anticipation Notes as a source of interim construction financing, subject to a feasibility review and approval by the Assistant General Manager or Designee (designated by the AGM).
- Commercial Paper (CP) - Short-term notes with maturities up to 270 days, which may be rolled over to a subsequent maturity date. Tax Exempt Commercial Paper may be issued for capital programs if program size and efficiency justify its use.
- Tax and Revenue Anticipation Notes (TRANs) - Short term notes secured by a pledge of taxes and other revenues in the current fiscal year. TRANs are direct obligations backed by the full faith and credit of the Agency and must be repaid within the same fiscal year. The Agency may choose to issue Tax Revenue Anticipation Notes to fund internal working capital needs, subject to approval by the Assistant General Manager or Designee (designated by the AGM).

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State Revolving Funds

The State Revolving Fund (SRF) loan program provides low- or zero-interest financing for eligible water infrastructure projects, including wastewater treatment and sewage collection systems, water recycling facilities, storm water projects, implementation of nonpoint source and storm drainage pollution control management programs, and for the development and implementation of estuary conservation and management programs. SRF debt service obligations are factored into debt service coverage ratios as defined by applicable water and wastewater indentures.

SRF loans are generally structured to require the Agency to contribute a portion of the total project cost, with the remaining balance funded through loan proceeds from the State. In general, the interest rate is calculated as one-half of the True Interest Cost (TIC) of the most recent State of California General Obligation Bonds sale. Loan terms may extend up to 20 years, or if applicable 35 years under financing provisions, offering significant cost savings compared to traditional bond financing.

In certain cases, SRF Loans may include principal forgiveness. Any principal forgiveness must be explicitly stated in the executed loan agreement to be credited against the total loan amount provided by the SRF program.

Water Infrastructure Finance and Innovation Act (WIFIA) Loans

The Water Infrastructure Finance and Innovation Act (WIFIA) loan program, administered by the U.S. Environmental Protection Agency (EPA), offers long-term, low-interest loans for large-scale water infrastructure projects. Eligible projects include drinking water systems, wastewater treatment facilities, stormwater management, and water reuse initiatives.

WIFIA loans provide several advantages:

- Interest rates based on U.S. Treasury rates, often lower than traditional municipal bond rates
- Flexible repayment terms, with loan maturity up to 35 years
- Deferred repayment options, allowing up to five years post-project completion before payments begin
- Ability to finance up to 49% of eligible project costs, with potential to leverage additional funding sources

The Agency may pursue WIFIA financing when project scale, timing, and cost-effectiveness align with the program's criteria. WIFIA debt service obligations will be incorporated into the Agency's financial planning and debt coverage analysis.

Letters of Credit

The Agency shall have the authority to enter into a letter-of-credit agreement when such arrangements are deemed financially prudent and advantageous. Letters of credit may be used to enhance credit quality or provide liquidity support for variable rate debt instruments. Only those financial institutions with short-

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term credit ratings of at least VMIG 1/A-1, F1 from Moody's Investor Services, Standard & Poor's and Fitch IBCA, may participate in the Agency's letter of credit agreements.

INLAND EMPIRE UTILITIES AGENCY
DEBT MANAGEMENT POLICY
January 2026

Glossary of Terms

Term	Definition
Debt Management Policy	A formal framework guiding the issuance, structure, and oversight of debt.
Responsible Issuance	Issuing debt only when necessary, affordable, and aligned with strategic goals.
Transparency	Commitment to open communication with stakeholders through public reporting and disclosures.
Compliance	Adherence to all applicable laws, regulations, and contractual obligations related to debt.
Capital Improvement Program (CIP)	A multi-year plan for funding infrastructure and capital projects, often supported by debt.
Credit Rating	Independent assessment of the agency's creditworthiness, influencing borrowing costs.
Affordability	The agency's ability to repay debt without compromising financial stability or service delivery.
Debt Capacity	The maximum amount of debt the agency can issue within legal and financial limits.
Post-Issuance Compliance	Ongoing obligations after debt issuance, including tax law compliance, disclosures, and recordkeeping.
Arbitrage Rebate	Payment to the federal government when investment earnings exceed bond yield limits.
Board Approval	Formal authorization from the governing body prior to issuing debt.
Multi-Year Financial Forecast	Projection of revenues, expenditures, and debt service over several years to guide planning.
Strategic Financial Planning	Integration of financial decisions with long-term goals and priorities.
Legal Counsel	Attorneys who ensure debt transactions comply with applicable laws and regulations.
Investor Relations	Communication strategies to maintain investor confidence and ensure market access.