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## PENINSULA HEALTH CARE DISTRICT DEBT MANAGEMENT POLICY

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This Debt Management Policy (the “Debt Policy”) of the PENINSULA HEALTH CARE DISTRICT (the “District”) was approved by the Board of Directors of the District (the “Board”) on July 27, 2017. This Debt Policy may be amended by the Board as it deems appropriate from time to time in the prudent management of the debt of the District.

This Debt Policy has been developed to provide guidance in the issuance and management of debt obligations by the District and is intended to comply with Section 8855(i) of the California Government Code effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the District’s interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; and to maintain financial flexibility for the District.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the District’s effort to allocate limited resources to provide the highest quality of service to the public. The District understands that poor debt management can have ripple effects that hurt other areas of the District. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the District for its residents and businesses.

### **1. Findings**

This Debt Policy shall govern all debt undertaken by the District. The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District’s sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District’s credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers and constituents of the District.
- Ensure that the District’s debt is consistent with the District’s planning goals

and objectives and capital improvement program or budget, as applicable.

- Encourage those that benefit from a facility/improvement to pay the cost of that facility without the need for the expenditure of limited general fund resources.

## 2. Policies

### A. Purposes For Which Debt May Be Issued

The District will consider the use of debt financing primarily for capital improvement projects (CIP) when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this CIP driven focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes, as described below. Bonded debt should not be issued for projects with minimal public benefit or support, or to finance normal operating expenses.

If the District has any project which is expected to use debt financing, the Chief Executive Officer is responsible to provide reasonable estimates of revenue sources that will provide payment for the debt service. This will allow an analysis of the project's potential impact on the District's debt capacity and limitations. The Chief Executive Officer shall also provide an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue to pay for such incremental costs.

(i) Long-Term Debt. Long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the District.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the District and its taxpayers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

(c) The District may use long-term debt financings subject to the following conditions:

- The project to be financed has been or will be approved by the Board.

- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the District to violate any covenants or requirements to maintain the tax-exempt status of such debt, if applicable.
- The District estimates that sufficient income or revenues will be available to service the debt through its maturity.
- The District determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
- The District considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative funding sources.

(d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refundings will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve District objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least 4% of the principal amount of refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than 4% or negative savings that provide other benefits will be considered on a case-by-case basis.

(ii) Short-term debt. Short-term borrowings may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN).

Short-term borrowings, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowings or another source of repayment. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to the issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the Board determines that extraordinary circumstances exist, should not exceed ten years.

Short-term debt may also be used to finance short-lived capital projects; for example, the District may undertake lease-purchase financing for equipment and other personal property, and such equipment leases may be longer than ten years.

## B. Types of Debt

In order to maximize the financial options available to benefit the public, it is the policy of the District to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds: General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large, such as new health facilities. All GO bonds shall be authorized by the requisite number of votes in order to pass.
- Revenue Bonds: Revenue Bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. The District repays its Revenue Bonds with all revenues and income generated by the District. Generally, no voter approval is required to issue this type of obligation.
- Lease-Backed Debt/Certificates of Participation (Lease Revenue Bonds/COP): Issuance of Lease-backed debt is a commonly used form of debt that allows a public entity to finance projects where the debt service is secured via a lease agreement or installment sale agreement and where the payments are budgeted in the annual operating budget of the District. Lease-Backed debt does not constitute indebtedness under the state or the District's constitutional debt limit and does not require voter approval.

The District may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

To maintain a predictable debt service burden, the District will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The District may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of securities. When making the determination to issue debt in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the useful life of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose. The maximum amount of variable-rate debt should be limited to no more than 25% of the total debt portfolio.

The District will limit the use of derivatives, such as interest rate swaps, in its debt program. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk, in converting variable rated debt to fixed rate debt

and thereby reducing borrowing costs. However, these products bear certain risks not associated with standard debt instruments.

### **C. Relationship of Debt to Capital Improvement Program and Budget**

The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's capital budget and its capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues and designated reserves. The District shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear, unless a specific revenue source has been identified for this purpose.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from operations.

### **D. Policy Goals Related to Planning Goals and Objectives**

The District is committed to financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the District's annual operating budget.

It is a policy goal of the District to protect taxpayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

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

Except as described in Section 2.A., when refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations minimum net present value debt service savings equal to or greater than 4% of the principal amount of refunded debt.

### **E. Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt Policy, the District shall comply with any other applicable policies regarding initial bond

disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds, where applicable.

The District will periodically review the requirements of and will remain in compliance with the following:

- any existing covenants imposed in connection with the District's presently outstanding debt,
- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior debt issues, and
- the District's investment policies as they relate to the investment of debt proceeds.

Whenever prudent, proceeds of debt will be held by a third-party trustee and the District will submit written requisitions for such proceeds. The District will submit a requisition only after obtaining the signature of the Chief Executive Officer.

#### **F. Waivers of Debt Policy**

There may be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or in the best interests of the District and the failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the District in accordance with applicable laws.

Approved by Board: July 27, 2017