



RIVERSIDE COUNTY TRANSPORTATION COMMISSION

DEBT MANAGEMENT POLICY

Adopted on March 11, 2020

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RIVERSIDE COUNTY TRANSPORTATION COMMISSION

DEBT MANAGEMENT POLICY

Dated as of March 11, 2020

I. Purpose

The purpose of this Debt Management Policy (Debt Policy) is to establish comprehensive guidelines for the issuance and management of debt (Debt) issued by the Riverside County Transportation Commission (Issuer) located in Riverside County, California (County). This Debt Policy is intended to help ensure that:

- i. The Issuer, the Board of Commissioners as the governing body of the Issuer (Board), and Issuer management and staff adhere to sound debt issuance and management practices;
- ii. The Issuer achieves the most advantageous cost of capital within prudent risk parameters;
- iii. The Issuer preserves future financial flexibility; and
- iv. The Issuer preserves and enhances the credit ratings assigned to its Debt.

II. Scope of Debt Policy

This Debt Policy shall provide guidance for the issuance and management of bonds and other forms of indebtedness of the Issuer, together with any credit, liquidity and other ancillary instruments and agreements secured or executed in connection with such transactions. The Chief Financial Officer of the Issuer (CFO) is the designated administrator of the Debt Policy. The CFO shall have the day-to-day responsibility and authority for structuring, implementing and managing the Issuer's debt and financing program. The Debt Policy requires that each Debt issuance be specifically authorized by the Board.

While adherence to this Debt Policy is recommended in applicable circumstances, the Issuer recognizes that changes in the capital markets, Issuer programs and other unforeseen circumstances may produce situations that are not covered by the Debt Policy or require modifications or exceptions to achieve Debt Policy goals. In these cases, management flexibility is appropriate, provided specific authorization from the Board is obtained. The Issuer may approve Debt and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation CFO and approval of the Board, as circumstances warrant. The failure by the Issuer to comply with any provision of this Debt Policy shall not affect the validity of any Debt that is otherwise duly authorized and executed.

III. Legal Authority; Compliance with Laws, Resolutions, Debt Documents and Contracts

A) Legal Authority

The Issuer has exclusive authority to plan and issue Debt for Issuer-related purposes, subject to approval by the Board. Specific authority includes:

- 1) Ordinance No. 02-001, the Transportation Expenditure Plan and Retail Transaction and Use Tax Ordinance, adopted by the Board on May 8, 2002, pursuant to the provisions of the Riverside County Transportation Sales Tax Act, being Division 25 of the Public Utilities Code (PUC) of the State of California (Section 240000 *et seq.*) and approved by more than two-thirds of the electors voting on the measure on November 5, 2002, which Ordinance provides for the imposition of a retail transactions and use tax (Sales Tax) applicable in the incorporated and unincorporated territory of the County;
- 2) Section 240309 of the California PUC, which authorizes the Issuer to issue from time to time limited tax bonds (defined to include indebtedness and securities of any kind or class, including sales tax revenue bonds), secured and payable in whole or in part from revenues of the Sales Tax;
- 3) Ordinance No. 10-002, amending Ordinance No. 02-001, adopted by the Board on July 24, 2010 and approved by a majority of the voters voting on such ordinance at an election held on November 2, 2010;
- 4) Division 12 of the California PUC (Section 130000 *et seq.*) (as amended, including by Chapter 714 of the California Statutes of 2008 (Senate Bill No. 1316), and as it may be amended from time to time hereafter) (SB 1316), which authorizes the Issuer to set, levy and collect tolls, user fees, or other similar charges, payable for use of the toll lanes and other facilities on the portion of State Highway Route 91 (SR-91) between the Orange County and Riverside County line to the west and Interstate 15 (I-15) to the east and to issue one or more series of bonds or other obligations pursuant to the terms and conditions of a resolution adopted by a two-thirds vote of the Issuer, which obligations may be payable from the proceeds of such tolls or other revenue pledged; and
- 5) Streets and Highways Code Sections 149.7 and 149.8, including Chapter 421 of the California Statutes of 2008 (Assembly Bill 1954) (AB 1954), which authorizes the Issuer to set, levy and collect tolls, user fees, or other similar charges, payable for use of high-occupancy toll lanes and other facilities in the I-15 corridor in the County and to issue one or more series of bonds or other obligations pursuant to the terms and conditions of a resolution adopted by a two-thirds vote of the Issuer, which obligations may be payable from the proceeds of such tolls or other revenue pledged.

B) Compliance with Law

All Debt of the Issuer shall be issued in accordance with applicable Federal and State laws, rules and regulations, including without limitation the Internal Revenue Code of 1986 (Code) with respect to the issuance of tax-exempt Debt, the Securities Act of 1933 and the Securities Exchange Act of 1934, in each case as supplemented and amended, and regulations promulgated pursuant to such laws.

C) Compliance with Issuer Resolutions and Debt Documents

Debt of the Issuer shall be issued in accordance with applicable resolutions and debt documents of the Issuer, in each case as supplemented and amended.

D) Compliance with Other Agreements

Debt of the Issuer shall be issued in compliance with any other agreements of the Issuer with credit or liquidity providers, bond insurers or other third parties.

E) Compliance with California Government Code Section 8855(i)

This Debt Policy complies with California Government Code Section 8855(i) (California Senate Bill 1029 (2016)). The following paragraph cross-references the debt policy requirements of SB 1029 with the relevant sections of this policy.

- 1) California Government Code Section 8855(i)(1)(A): The purposes for which the debt may be used. *See Section V: Purposes for Debt.*
- 2) California Government Code Section 8855(i)(1)(B): The types of debt that may be issued. *See Section VI: Types of and Limitations on Debt.*
- 3) California Government Code Section 8855(i)(1)(C): The relationship of the debt to, and integration with, the issuer's capital improvement program or budget. *See Section XV: Budgeting and Capital Planning.*
- 4) California Government Code Section 8855(i)(1)(D): Policy goals related to the issuer's planning goals and objectives. *See Section I: Purpose.*
- 5) California Government Code Section 8855(i)(1)(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. *See Section IV: Administration of Debt Policy.*

Section 8855(i) of the California Government Code also requires certain reports to be prepared and filed with the California Debt and Investment Advisory Commission (CDIAC). These include the following:

- **Report of Proposed Debt Issuance:** Issuer must notify CDIAC of its intent to issue Debt at least 30 days before the sale of the Debt, including a certification by the Issuer that it has adopted local debt policies which shall include the elements identified in Section III.E.1-5 above, and that the contemplated Debt issuance is consistent with those local debt policies;
- **Report of Final Sale of Debt:** No later than 21 days after the sale of the Debt, the Issuer must report to CDIAC and include the pricing on the Debt (in addition to the information provided in the *Report of Proposed Debt Issuance*); and
- **Annual Debt Transparency Report:** If a report of final sale is submitted to CDIAC on or after January 21, 2017, Issuer must provide an annual report to CDIAC until the Debt has been repaid and the proceeds have been fully spent. The report captures for the reporting period beginning and ending balances on principal outstanding, authority remaining, and the use of Debt proceeds. The reporting period is July 1 through June 30.

IV. Administration of Debt Policy

A) Issuer

The Issuer shall be responsible for:

- 1) Approval of the issuance of all Debt and the terms and provisions thereof;
- 2) Appointment of municipal advisors, bond counsel, disclosure counsel, Issuer consultants, underwriters, feasibility consultants, trustee and other professionals retained in connection with the issuance of Debt;
- 3) Approval of this Debt Policy and any supplements or amendments;
- 4) Periodic approval of proposed Issuer annual and supplemental budgets for submission to the Board, including without limitation provisions for the timely payment of principal of and interest on all Debt; and
- 5) Maintaining internal control procedures with respect to Debt proceeds. Debt proceeds will be held either by a third-party trustee, which will disburse such proceeds to the Issuer upon the submission of one or more written requisitions, or by the Issuer to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the Issuer.

B) Chief Financial Officer

The CFO shall have responsibility and authority for the structure, issuance and management of the Issuer's Debt and financing programs. These responsibilities shall include, but not be limited to, the following:

- 1) Determining the appropriate structure and terms for all proposed Debt transactions;

- 2) Undertaking to issue Debt at the most advantageous interest and other costs consistent with prudent levels of risk;
- 3) Ensuring compliance of any proposed Debt with any applicable additional debt limitations under State law, or the Issuer's Debt Policy, resolutions and debt documents;
- 4) Seeking approval from the Board for the issuance of Debt or other debt obligations;
- 5) Coordinating with other public agencies in connection with necessary approvals associated with Debt issuance;
- 6) Recommending to the Board the manner of sale of any Debt or other debt transactions;
- 7) Monitoring opportunities to refund outstanding Debt to achieve debt service savings, and recommending such refunding to the Board, as appropriate;
- 8) Providing for and participating in the preparation and review of all legal and disclosure documents in connection with the issuance of any Debt by the Issuer;
- 9) Recommending the appointment of municipal advisors, bond counsel, disclosure counsel, Issuer consultants, underwriters, feasibility consultants and other professionals retained in connection with the Issuer's debt issuance as necessary or appropriate;
- 10) Distributing information regarding the business operations and financial condition of the Issuer to appropriate bodies on a timely basis in compliance with any applicable continuing disclosure requirements;
- 11) Communicating regularly with the rating agencies, bond insurers, investment providers, institutional investors and other market participants related to the Issuer's Debt;
- 12) Maintaining records with summary information regarding all of the Issuer's outstanding Debt and other debt obligations; and
- 13) Maintaining the following documents for the term of the Issuer's Debt (including refunding Debt, if any) plus three (3) years:
 - a) Electronic or physical copies of the Debt closing transcript and other relevant documentation in connection with the closing of the issuance of Debt;
 - b) Electronic or physical copies of all material documents related to capital expenditures financed or refinanced by Debt proceeds, including construction contracts, purchase orders, invoices, trustee requisitions and payment records as well as other documents relating to costs reimbursed with Debt proceeds and records identifying the assets or portion of assets that are financed with tax-exempt Debt proceeds;
 - c) Electronic or physical copies of all contracts and arrangements involving private or unrelated use of the debt-financed assets; and
 - d) Electronic or physical copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

C) Procedures for Approval of Debt

Proposed issuances of Debt by the Issuer shall be submitted to and subject to authorization and approval by the Board.

D) Considerations in Approving Issuance of Debt

The Issuer may take into consideration any or all of the following factors, as appropriate, prior to approving the proposed issuance of Debt:

- 1) Whether the proposed issuance complies with this Debt Policy;
- 2) Source(s) of payment and security for the Debt;
- 3) Projected revenues and other benefits from the projects proposed to be funded;
- 4) Projecting operating, other costs and potential revenues with respect to the proposed projects;
- 5) Impacts, if any, on Issuer and Debt credit ratings;
- 6) Period, if any, over which interest on the Debt should be capitalized;
- 7) Extent to which debt service on the Debt should be level or non-level;
- 8) Appropriate lien priority of the Debt;
- 9) Adequacy of the proposed disclosure document.

V. Purposes for Debt

The Issuer may issue Debt for the purposes of financing and refinancing the costs of capital projects undertaken by the Issuer. The Issuer may also issue Debt to pay extraordinary unfunded costs, including, but not limited to, termination or other similar payments due in connection with interest rate swaps (if any) and investment agreements entered into in connection with Debt. Proceeds of Debt may be applied to pay costs of issuance, to fund capitalized interest and debt service reserves and to pay costs incurred in connection with securing credit enhancement, including, but not limited to, premiums payable for letters of credit, standby bond purchase agreements, bond insurance and reserve fund sureties.

The Issuer shall not issue Debt for the purpose of funding operating costs, except for the purposes of funding pre-operations or initial operations and related reserves or other working capital of a toll enterprise, as permitted by law.

A) New Money Debt

New money issues are those financings that generate additional funding to be available for expenditure on capital projects. New money proceeds may not be used to fund non-capital operational activities, except as provided above in Section V with respect to toll enterprises.

B) Refunding Debt

The Issuer may issue Debt to refund the principal of and interest on outstanding Debt of the Issuer or prior equity contributions of the Issuer, including in each case related costs, all in accordance with any applicable indenture of the Issuer and State law, in order to:

- 1) Achieve debt service savings;
- 2) Restructure scheduled debt service;
- 3) Refund equity contributions;
- 4) Convert from or to, or extend, a variable or fixed interest rate structure;
- 5) Change or modify the source or sources of payment and security for the refunded Debt; or
- 6) Modify covenants otherwise binding upon the Issuer.

Refunding Debt may be issued either on a current or advance basis, including on a tax-exempt basis as permitted by applicable Federal tax laws. The Issuer may also utilize a tender offer process to refund Debt that is not otherwise subject to optional call by the Issuer.

Refunding Debt should be issued to achieve debt service savings in most cases if the threshold present value savings level (net of all issuance costs and any cash contribution to the refunding) is at least three percent (3%) of the par value of the refunded Debt. Refundings which do not produce savings are permitted if justified based on the need for restructuring existing Debt, removing covenants/pledges that are restrictive and/or no longer required by the market and/or making other changes in debt documents that would benefit the current, short-term, or long term capital cost of the Issuer, or for any other purpose as may be approved by the CFO with the concurrence of the Executive Director.

VI. Types of and Limitations on Debt

A) Long-Term Debt

The Issuer may issue Debt with longer-term maturities to amortize Issuer capital or other costs over a period commensurate with the expected life, use or benefit provided by the project, program or facilities financed from such Debt. Long-term Debt will generally have a final maturity of five (5) years or more. Long-term debt is appropriate for financing essential capital projects and certain capital equipment where the project being financed will provide benefit over multiple years and the Issuer considers the project to be of time-sensitive need.

B) Short-Term Debt

The Issuer may issue Debt with shorter-term maturities to provide interim funding for capital projects and expenditures that are ultimately likely to be funded from another source such as a grant, a long-term Debt issue, or the receipt of Federal or State grants, other revenues, and/or for cash flow management. Short-term Debt shall consist of Debt of an issue with a final maturity of less than five (5) years and may include, but is not limited to, Debt in the form of Tax and Revenue Anticipation Notes, Bond Anticipation Notes, Grant Anticipation Notes, and/or Commercial Paper.

C) Sales Tax Revenue Debt

If and to the extent authorized in accordance with applicable provisions of State law, the Issuer may issue Debt payable in whole or in part from sales tax revenues. It is expected that sales tax revenue debt will represent a principal form of Debt of the Issuer.

D) Other Revenue Debt

If and to the extent authorized in accordance with applicable provisions of State law, the Issuer may issue Debt payable in whole or in part from other types of revenues, such as toll and related non-toll revenues. It is expected that toll revenue debt will represent a principal form of Debt of the Issuer.

E) Other Federal, State and Local Programs

The Issuer may also participate in federal loans administered or provided by the United States Department of Transportation, including, but not limited to, loans provided under the Transportation Infrastructure Finance and Innovation Act (TIFIA), as well as other federal, state or local, loan or bond programs, and may secure credit enhancement and/or credit support provided under federal, state or local programs, provided such loans, bonds or programs provide an attractive funding cost or other desirable features such as, but not limited to, deep subordination of the repayment obligation, an unusually long repayment term, or no payment due until a certain period after substantial project completion.

F) Fixed-Rate Debt

The Issuer may issue Debt that bears a fixed-rate rate of interest.

G) Variable Rate Debt

The Issuer may also issue Debt that bears a variable rate of interest, including, but not limited to, variable rate demand obligations, commercial paper and floating rate notes.

VII. Terms and Provisions of Debt

A) Debt Service Structure

The Issuer shall design the financing schedule and repayment of Debt so as to take advantage of market conditions, provide flexibility and, as practical, to recapture or maximize its debt capacity for future use. Annual debt service payments for Debt payable from sales tax revenues will generally be structured on a level basis; however, for Debt backed by sales tax revenues and other sources of revenue, principal amortization may occur more quickly or slowly where permissible to mirror Debt repayment revenue streams and/or provide future financing flexibility.

B) Amortization of Principal

Long-term Debt of the Issuer shall be issued with maturities that amortize the principal of such Debt over a period commensurate with the expected life, use or benefit (measured in years) provided by the projects, programs and/or facilities financed from the proceeds of such Debt. The weighted average maturity of such Debt (if issued as tax-exempt Debt) should not exceed one hundred and twenty percent (120%) of the reasonably estimated weighted average life, use or benefit (measured in years) of the projects, programs and/or facilities financed from the proceeds of such Debt or otherwise in compliance with the Code.

Amortization of principal may be achieved either through serial maturities and/or through term Debt subject to mandatory sinking fund payments and/or optional redemptions.

C) Capitalized Interest

The Issuer may fund interest on Debt from proceeds of Debt for legal, budgeting or structuring purposes, subject to any limitations of state law or federal tax law, as applicable.

D) Call Provisions for Debt

1) *Optional Call Provisions.* The Issuer shall seek to include the shortest practicable optional call rights, with and/or without a call premium, consistent with optimal pricing of such Debt. Call premiums, if any, should not be in excess of then

prevailing market standards for similar Debt to the extent consistent with the most advantageous borrowing cost for the Issuer. Make-whole calls and non-callable maturities may be considered and used to accommodate market requirements or other advantageous benefits to the Issuer.

- 2) *Extraordinary Call Provisions*. The Issuer, at its option, may include extraordinary call provisions, including for example with respect to unspent proceeds, damage to or destruction of the project or facilities financed, or other matters, as the Issuer may determine is necessary or desirable.

E) Payment of Interest

- 1) Current Interest Debt may be issued. It is anticipated that the interest on most Debt issued will be paid on a current interest basis.
- 2) Deferred Interest Debt may also be issued. Debt of the Issuer may be issued with the payment of actual or effective interest deferred in whole or in part to the maturity or redemption date of each debt instrument, or the conversion of such debt instrument to a current interest-paying debt instrument (known, respectively, as capital appreciation bonds, zero coupon bonds and convertible capital appreciation bonds). Deferred Interest Debt may be issued to achieve optimal sizing, debt service structuring, pricing or other purposes.

F) Determination of Variable Interest Rates on Debt

The interest rate from time to time on Debt the interest of which is not fixed to maturity may be determined in such manner that the Issuer determines, including without limitation on a daily, weekly, monthly or other periodic basis, by reference to an index, prevailing market rates or other measures, and by or through remarketing or other methods.

G) Tender Options on Debt

The Issuer may issue Debt subject to the right or obligation of the holder to tender the Debt back to the Issuer for purchase, including, for example, to enable the holder to liquidate their position, or upon the occurrence of specified credit events, interest rate mode changes or other circumstances. The obligation of the Issuer to make payments to the holder upon any such tender may be secured by:

- 1) A credit or liquidity facility from a financial institution in an amount at least equal to the principal amount of the Debt subject to tender;
- 2) A liquidity or similar account into which the Issuer shall deposit and maintain an amount at least equal to the principal amount of the Debt subject to tender; or
- 3) Other means of self-liquidity that the Issuer deems prudent.

H) Multi-Modal Debt

The Issuer may issue Debt that may be converted between two or more interest rate modes without the necessity of a refunding. Such interest rate modes may include, without limitation: daily interest rates, weekly interest rates, index rates, other periodically variable interest rates, commercial paper rates, auction rates, fixed rates for a term and fixed rates to maturity (in each case with or without tender options).

I) Debt Service Reserve Funds

The Issuer may issue Debt that is secured by amounts on deposit in or credited to a debt service reserve fund or account in order to minimize the net cost of borrowing and/or to provide additional reserves for debt service or other purposes. Debt service reserve funds may secure one or more issues of Debt, and may be funded by proceeds of Debt, other available moneys of the Issuer, and/or by surety policies, letters or lines of credit or other similar instruments. Surety policies, letters or lines of credit or other similar instruments may be substituted for amounts on deposit in a debt service reserve fund if such amounts are needed for capital projects or other purposes.

Amounts in the debt service reserve funds shall be invested, in accordance with the requirements of the applicable Debt documents, in order to:

- 1) Minimize the risk of loss;
- 2) Maximize the rate of return on such amounts;
- 3) Minimize volatility in the value of such investments; and
- 4) Maximize liquidity so that such amounts will be available if it is necessary to draw upon them.

J) Lien Levels

The Issuer may create pledges at various lien priority levels, for any fund source which secures Debt repayment, in order to optimize financing capacity.

K) Debt Service Coverage

The Issuer shall maintain a debt service coverage of at least 200% or 2x the maximum annual debt service on all outstanding sales tax revenue bonds, although debt documents may establish a minimum threshold of at least 150% or 1.5x the maximum annual debt service on all outstanding sales tax revenue bonds.

Debt service coverage for toll revenue bonds shall be at least 150% or 1.5x the annual debt service in each fiscal year on all outstanding senior lien obligations and 130% or 1.3x the annual debt service in each fiscal year on all outstanding senior lien obligations, second lien obligations and subordinate obligations.

L) Build America Bond and Recovery Zone Economic Development Bond Subsidies

The Issuer is responsible to ensure compliance with all Federal laws and regulations (Federal Requirements) associated with the issuance of tax-exempt debt (Tax-Exempt Obligations) and tax-advantaged direct pay notes, bonds or other form of repayment, including without limitation obligations issued under Section 54A or Section 1400U-2 of the Code (collectively, Tax Advantaged Obligations). Accordingly, the following guidelines are provided and procedures established for compliance with Federal Requirements in connection with the issuance of Tax-Exempt Obligations and Tax Advantaged Obligations.

Unless otherwise instructed by bond counsel, at closing the Issuer will execute documentation covenanting to comply with Federal rebate and arbitrage requirements, including with respect to Tax Advantaged Obligations, as applicable.

VIII. Maintenance of Liquidity; Reserves

The Issuer may maintain unencumbered reserves in amounts at least sufficient, in the determination of the Issuer, to cover unexpected revenue losses, extraordinary payments and other contingencies, and to provide liquidity in connection with the Issuer's outstanding Debt.

IX. Investment of Debt Proceeds and Related Moneys

Proceeds of Debt and amounts in the Issuer's debt service, project fund and debt service reserve funds with respect to outstanding Debt shall be invested in accordance with the terms of the applicable Debt documents and other applicable agreements of the Issuer.

X. Third Party Credit Enhancement

The Issuer may secure credit enhancement for its Debt from third-party credit providers to the extent such credit enhancement is available upon reasonable, competitive and cost-effective terms. Such credit enhancement may include municipal bond insurance (Bond Insurance), letters of credit and lines of credit (collectively and individually, Credit Facilities), as well as other similar instruments.

A) Bond Insurance

All or any portion of an issue of Debt may be secured by Bond Insurance provided by municipal bond insurers (Bond Insurers) if it is economically advantageous to do so, or if it is otherwise deemed necessary or desirable in connection with a particular issue of Debt. The relative cost or benefit of Bond Insurance may be determined by comparing the amount of the Bond Insurance premium to the present value of the estimated interest savings to be derived as a result of the insurance.

B) Credit Facilities

The issuance of certain types of Debt requires a letter of credit or line of credit (Credit Facility) from a commercial bank or other qualified financial institution to provide liquidity and/or credit support. The types of Debt where a Credit Facility may be necessary include commercial paper, variable rate Debt with a tender option and Debt that could not receive an investment grade credit rating in the absence of such a facility.

The criteria for selection of a Credit Facility provider shall include the following:

- 1) Long-term ratings from at least one nationally recognized credit rating agency (collectively, the Rating Agencies) preferably to be equal to or better than those of the Issuer or the Debt or short-term ratings from at least one Rating Agency of at least P-1/A-1 or equivalent, as applicable;
- 2) Experience providing such facilities to state and local government issuers;
- 3) Fees, including without limitation initial and ongoing costs of the Credit Facility; draw, transfer and related fees; counsel fees; termination fees and any trading differential; and
- 4) Willingness to agree to the terms and conditions proposed or required by the Issuer.

XI. Use of Derivatives

Derivative products include but are not limited to interest rate swaps, interest rates caps and collars and forward or other hedging agreements. Derivative products will be considered in the issuance or management of debt only in instances where it has been demonstrated to the satisfaction of the Issuer that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or, alternatively, where it will reduce total debt service cost in a manner that exceed the risks. Derivative products will only be utilized following the Interest Rate Swap Policy adopted by the Board on July 12, 2006 and with prior Board approval. In addition, an analysis of early termination costs and other conditional terms must be completed by the Issuer's municipal advisor prior to the approval of any derivative product by the Board. Such analysis will document the risks and benefits associated with the use of the particular derivative product.

XII. Methods of Sale and Pricing of Debt

There are three principal methods for the sale of Debt:

- Competitive;
- Negotiated and

- Private placement.

In addition, Debt may be incurred as a direct loan. The Issuer shall utilize the method of sale that (a) is reasonably expected to produce the most advantageous interest cost with respect to the Debt and (b) provides the Issuer with the flexibility most desirable in connection with the structuring, timing or terms of such Debt. The Issuer shall utilize such method that is likely to provide the most advantageous borrowing costs and execution on behalf of the Issuer.

Debt may be sold at such prices, including at par, a premium or a discount, as the Issuer, in consultation with its municipal advisor, may determine is likely to produce the most advantageous interest cost under then prevailing market conditions, subject to compliance with applicable State law and Federal securities laws.

A) Competitive Sale

The competitive method of sale may be appropriate when:

- 1) Bond prices are stable or there is strong demand for the bonds;
- 2) Market timing and interest rate sensitivity are not critical to the pricing;
- 3) Issuer has a strong credit rating and is well known to investors;
- 4) The Issuer has straightforward political and organizational structure, and the project, funding, and credit quality are easy to understand and market to potential investors; or
- 5) The Debt type and structure are conventional and the transaction size is manageable.

B) Negotiated Sale

A negotiated sale may be appropriate when:

- 1) There is market volatility or weak demand and high supply of competing financings;
- 2) The Debt structure is complex;
- 3) Issuer has lower or weakening credit rating or is not well known to investors;
- 4) The Debt has non-standard structural features, such as a forward delivery, issuance of variable rate bonds, use of derivative products, or possesses a specific structuring feature that benefits from a negotiated sale;
- 5) Early structuring and market participation by underwriters are desired and there is strong projected retail demand for the Debt; or
- 6) The Debt size is significantly larger and would limit competition.

For a negotiated bond sale, the Issuer, with the assistance of its municipal advisor, will conduct a competitive underwriter selection process for either a specific Debt issue

or through the establishment of an underwriter pool from which to choose over a defined period of time.

C) Private Placement

A private placement is structured for one investor or a small group of investors, who are typically qualified institutional buyers, in a non-public offering conducted by an underwriting firm serving as placement agent. Since no public offering is involved, securities disclosure may not require the preparation of an offering document, such as an official statement. If a private placement is considered as the optimal sale method for the Issuer, the municipal advisor will conduct a competitive selection process to recommend the placement agent.

D) Direct Purchase; Direct Loan; Revolving Obligations

A direct purchase or direct loan is structured specifically for one bank (or a syndicate of banks), putting the Issuer and bank in a bilateral borrower-lender relationship. Examples include a direct purchase agreement or revolving credit facility. Securities disclosure also may not require the preparation of an offering document, such as an official statement. A direct purchase or direct loan may be advisable, for example, if the Issuer is otherwise unable to access the municipal capital markets. If a direct purchase or direct loan is contemplated, the municipal advisor or the Issuer may conduct a competitive selection process to recommend the bank. Selection criteria will include:

- 1) A term sheet to be provided along with the request for qualifications, with any requested modifications to be highlighted by the bank and taken into consideration in the evaluation process;
- 2) A representative list of clients for whom the bank has provided similar agreements; and
- 3) Evaluation of fees, specifically, cost of the agreement including index, spread, and other administrative charges. The evaluation of fees, terms and conditions will be compared to other alternative financing methods.

XIII. Debt Redemption Programs

The Issuer may establish from time-to-time a plan or program for the payment and/or redemption of outstanding Debt and/or interest thereon from revenues and/or other available funds pursuant to a recommendation from the CFO. Such plan or program may be for the purposes of reducing outstanding Debt, managing the amount of debt service payable in any year, or other suitable purposes, as determined by the Issuer.

XIV. Professional Services

The Issuer may retain professional services providers as necessary or desirable in connection with:

- The structuring, issuance and sale of its Debt;
- Monitoring of and advice regarding its outstanding Debt;
- The negotiation, execution and monitoring of related agreements, including without limitation Bond Insurance, Credit Facilities, Derivatives and investment agreements; and
- Other similar or related matters.

Professional service providers may include municipal advisors, bond counsel, disclosure counsel, Issuer consultants, bond trustees and Federal arbitrage rebate services providers, and may include, as appropriate, underwriters, feasibility consultants, remarketing agents, auction agents, broker-dealers, escrow agents, verification agents and other similar parties. Costs of issuance, including the standard underwriter's discount, shall not exceed two percent (2%) of Debt proceeds, unless specifically authorized.

The Issuer shall require that its Municipal Advisors, bond and disclosure counsel and other Issuer consultants be free of any conflicts of interest, or that any necessary or appropriate waivers or consents are obtained.

A) Municipal Advisors

The Issuer may utilize one or more municipal advisors to provide ongoing advisory services with respect to the Issuer's outstanding and proposed Debt and related agreements, including without limitation Bond Insurance, Credit Facilities, Derivatives, investment agreements and other similar matters. Municipal advisors must be registered with the Municipal Securities Rulemaking Board and as a municipal advisor as such term is defined in the Securities Exchange Act of 1934 and shall be required to disclose any conflicts of interest.

B) Bond Counsel, Disclosure Counsel and Other Legal Counsel

- 1) *Bond Counsel*. The Issuer may utilize one or more bond counsel firms to provide ongoing legal advisory services with respect to the Issuer's outstanding and proposed Debt and related agreements, including without limitation Credit Facilities, Derivatives, investment agreements and other similar matters. All Debt issued by the Issuer shall require a written opinion from the Issuer's bond counsel, as appropriate, regarding (i) the validity and binding effect of the Debt, and (ii) the exemption of interest from Federal and State income taxes, as applicable.

- 2) *Disclosure Counsel.* The Issuer may utilize one or more disclosure counsel firms to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the Issuer's outstanding and proposed Debt. Such firm may be one of the Issuer's bond counsel firms.
- 3) *Other Legal Counsel.* The Issuer may encourage or require, as appropriate, the retention and use of legal counsel by other parties involved in the issuance of Debt and the execution of related agreements which are approved by the Issuer.

C) Issuer Consultant

The Issuer may utilize one or more outside Issuer consultants to provide ongoing advisory services with respect to the Issuer's outstanding and proposed Debt, Issuer fares, strategic business and financial decisions and such other matters as the Issuer requires.

D) Trustees and Fiscal Agents

The Issuer may engage bond trustees and/or fiscal agents, paying agents and tender agents, as necessary or appropriate, in connection with the issuance of its Debt.

E) Underwriters/Remarketing Agents/Broker-Dealers

The Issuer may engage an underwriter or a team of underwriters, including a senior managing underwriter, in connection with the negotiated sale of its Debt. The Issuer also may engage one or more underwriters, as necessary or appropriate, to serve as remarketing agents, broker-dealers or in other similar capacities with respect to variable rate, auction, index, tender option, commercial paper and other similar types of Debt issued by the Issuer.

F) Feasibility Consultants

The Issuer may retain feasibility consultants in connection with proposed project, programs, facilities or activities to be financed in whole or in part from proceeds of Debt. The criteria for the selection of such feasibility consultants, in addition to those set forth above, shall include their expertise and experience with projects, programs, facilities or activities similar to those proposed to be undertaken by the Issuer.

G) Arbitrage Rebate Services Providers

Because of the complexity of the Federal arbitrage rebate statutes and regulations, and the severity of potential penalties for non-compliance, the Issuer may retain an arbitrage rebate services provider in connection with its outstanding and proposed Debt, and may also solicit related legal and tax advice from its bond counsel or

separate tax counsel. The responsibilities of the arbitrage rebate services provider shall include:

- The periodic calculation of any accrued arbitrage rebate liability and of any rebate payments due under and in accordance with the Code and the related rebate regulations;
- Advice regarding strategies for minimizing arbitrage rebate liability;
- The preparation and filing of periodic forms and information required to be submitted to the Internal Revenue Service;
- The preparation and filing of requests for reimbursement of any prior overpayments; and
- Other related matters as requested by the Issuer, including the preparation and filing of the Annual Debt Transparency Report(s) with CDIAC, as required by Government Code Section 8855(i).

The Issuer shall maintain necessary and appropriate records regarding:

- The expenditure of proceeds of Debt, including the individual projects and facilities financed and the amounts expended thereon, and
- Investment earnings on such Debt proceeds.

The Issuer shall maintain such records for such period of time as shall be required by the Code.

H) Other Professional Services

The Issuer may retain such other professional services providers, including without limitation dissemination agents, verification agents, escrow agents, auction agents, as may be necessary or appropriate in connection with its Debt.

XV. Budgeting and Capital Planning

The Issuer's budgeting process, including its budgeting process for capital expenditures, shall provide a framework for evaluating proposed Debt issuances.

XVI. Credit Rating Objectives

The Issuer shall seek to preserve and enhance the credit ratings with respect to its outstanding Debt to the extent consistent with the Issuer's current and anticipated business operations and financial condition, strategic plans and goals and other objectives, and in accordance with any developed credit strategies.

XVII. Debt Affordability

Consistent with its credit rating objectives, the Issuer shall periodically review its debt affordability levels and capacity for the undertaking of new financing obligations to fund its expenditure plans. Debt affordability measures shall be based upon the credit objectives of the Issuer, criteria identified by the Rating Agencies, comparison of industry peers and other internal factors of the Issuer.

XVIII. Relationships with Market Participants

The Issuer shall seek to preserve and enhance its relationships with the various participants in the municipal bond market, including without limitation, the Rating Agencies, Bond Insurers, credit/liquidity providers and current and prospective investors, including through periodic communication with such participants.

The Issuer shall prepare or cause to be prepared appropriate disclosures as required by applicable continuing disclosure agreements, including any applicable requirements of the Securities and Exchange Commission Rule 15c2-12, as well as in conformance with any other applicable requirements of the federal government, the State of California, Rating Agencies or other persons or entities entitled to such disclosure, in order to ensure compliance with applicable laws, regulations and agreements to provide ongoing disclosure.

XIX. Periodic Review

The CFO shall review this Debt Policy on a periodic basis and recommend any changes to the Board for consideration. This Debt Policy, including any proposed changes or additions hereto, shall be presented to the Board at least once every five (5) years for reapproval.