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 Board of Directors

Policy : Debt Policy

I. Purpose

The purpose of this Debt Policy (the "Debt Policy") is to establish comprehensive guidelines for the issuance and management of debt issuances (herein referred as "Debt") by Palomar Health (the "District"). This Debt Policy is intended to help ensure that: (i) the District, the Board of Directors of the District (the "Board of Directors" or the "Board"), and District management and staff adhere to sound debt issuance and management practices; (ii) the District achieves the most advantageous cost of borrowing commensurate with prudent levels of risk; and (iii) the District 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 debt issuances of the District, together with credit, liquidity and other ancillary instruments and agreements secured or executed in connection with such transactions. While adherence to this Debt Policy is recommended in applicable circumstances, the District recognizes that changes in the capital markets, District 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 of Directors is obtained. The District may approve Debt and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation and approval of the Chief Financial Officer of the District (the "Chief Financial Officer") as circumstances warrant. The failure by the District to comply with any provision of this Debt Policy shall not affect the validity of any Debt that is otherwise duly authorized and executed.

The Chief Financial Officer is the designated administrator of the Debt Policy. The Chief Financial Officer shall have the day-to-day responsibility and authority for structuring, implementing and managing the District's debt and financing program. The Debt Policy requires that each debt issuance be specifically authorized by the Board of Directors.

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

A. Legal Authority

The District has exclusive authority to plan and issue Debt for District related purposes, subject to approval by the Board of Directors.

B. Compliance with Law

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

C. Compliance with District Resolutions and Debt Documents

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

D. Compliance with Other Agreements

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

E. Compliance with SB 1029

This Debt Policy complies with 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. Cal. Gov. Code Section 8855(i)(1)(A): The purposes for which the debt may be used. See Section V: [Purposes for Debt](#).
2. Cal. Gov. Code Section 8855(i)(1)(B): The types of debt that may be issued. See Section VI: [Types of and Limitations on Debt](#).
3. Cal. Gov. 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. Cal. Gov. Code Section 8855(i)(1)(D): Policy goals related to the issuer's planning goals and objectives. See Section I: [Purpose](#).
5. Cal. Gov. 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](#).

IV. Administration of Debt Policy

A. District

The District shall be responsible for:

1. Approval of the issuance of all Debt and the terms and provisions thereof;
2. Appointment of financial advisors, bond counsel, disclosure counsel, District 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 the District's capital improvement plans; and
5. Periodic approval of proposed District annual and supplemental budgets for submission to the Board of Directors, including without limitation provisions for the timely payment of principal of and interest on all Debt.
6. Maintaining internal control procedures with respect to Debt proceeds.

B. Chief Financial Officer

The Chief Financial Officer shall have responsibility and authority for structuring, issuing and managing the District's Debt and financing programs. This 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. Insuring compliance of any proposed Debt with any applicable additional debt limitations under State law, or the District's Debt Policy, resolutions and debt documents;
4. Seeking approval from the Board of Directors for the issuance of Debt or other debt obligations;
5. Recommending to the Board of Directors the manner of sale of any Debt or other debt transactions;
6. Monitoring opportunities to refund outstanding Debt to achieve debt service savings, and recommending such refunding to the Board, as appropriate;
7. 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 District;
8. Recommending the appointment of financial advisors, bond counsel, disclosure counsel, District consultants, underwriters, feasibility consultants and other professionals retained in connection with the District's debt issuance as necessary or appropriate;
9. Distributing information regarding the business operations and financial condition of the District to appropriate bodies on a timely basis in compliance with any applicable continuing disclosure requirements;
10. Communicating regularly with the rating agencies, bond insurers, investment providers, institutional investors and other market participants related to the District's Debt; and
11. Maintaining a database with summary information regarding all of the District's outstanding Debt and other debt obligations.

C. Procedures for Approval of Debt

The proposed issuance of Debt by the District shall be submitted to and subject to approval by the District Board of Directors for authorization and approval.

D. Considerations in Approving Issuance of Debt

The District 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 tax rates, debt service coverage and funds required for operations;
6. Impacts, if any, on District credit ratings;
7. Period, if any, over which interest on the Debt should be capitalized;
8. Extent to which debt service on the Debt should be level or structured;
9. Appropriate lien priority of the Debt;
10. Adequacy of the proposed disclosure document.

V. Purposes for Debt

A. Permissible Purposes

The District may issue Debt for the purposes of financing and refinancing the costs of capital projects undertaken by the District. The District 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 and investment agreements entered into in connection with Debt.

B. Prohibited Purposes

The District shall not issue Debt for the purpose of funding operating costs except under extraordinary circumstances or at minimal cost for cash flow management purposes where statutorily permitted.

VI. Types of and Limitations on Debt

A. General Obligation Debt

General Obligation Debt represent general obligations of the District and will be payable solely from a levy of ad valorem taxes without limitation as to rate or amount upon all property subject to taxation within the District (except certain property which is taxable at limited rates) for the payment of principal of and interest on the Debt.

B. Installment Payment Obligations

The District may issue installment payment certificates of participation or Debt payable in whole or in part from underlying installment payment revenues.

C. New Money Debt

New money issues are those financings that generate additional funding to be available for expenditure on capital projects. These funds will be used for acquisition, construction and major rehabilitation of capital assets. New money proceeds may not be used to fund operational activities.

D. Refunding Debt

The District may issue Debt to refund the principal of and interest on outstanding Debt of the District in order to (i) achieve debt service savings; (ii) restructure scheduled debt service; (iii) convert from or to a variable or fixed interest rate structure; (iv) change or modify the source or sources of payment and security for the refunded Debt; or (v) modify covenants otherwise binding upon the District. Refunding Debt may be issued either on a current or advance basis, as permitted by applicable Federal tax laws. The District may also utilize a tender offer process to refund Debt that are not otherwise subject to optional call by the District.

Refunding Debt should be issued to achieve debt service savings in most cases. Refundings which do not produce savings are permitted if justified based on the need for legal restructuring to correct major discrepancies or deficiencies in supporting debt documents that would benefit the current, short-term, or long term capital cost of the District.

E. Long-Term Debt

The District may issue Debt with longer-term maturities to amortize District 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 shall consist of Debt of an issue with a final maturity of five (5) years or more.

F. Short-Term Debt

The District may issue Debt with shorter-term maturities to provide interim financing for capital projects in anticipation of the issuance of longer-term Debt 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.

G. Fixed-Rate Debt

Fixed-rate Debt, on either an actual basis or a synthetic basis using interest rate swaps, may be issued by the District.

H. Variable Rate Debt

Variable rate Debt may also be issued by the District.

VII. Terms and Provisions of Debt

A. Debt Service Structure

The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility and, as practical, to recapture or maximize its debt capacity for future use. Annual debt service payments will generally be structured on a level basis per component financed; however, principal amortization may occur more quickly or slowly where permissible, to meet debt repayment, tax rate and flexibility goals.

B. Amortization of Principal

Long-term Debt of the District 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 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.

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

C. Capitalization of Interest

The District may pay or reimburse interest on Debt from proceeds of Debt for legal, budgeting or structuring purposes.

D. Call Provisions for Debt

1. Optional Call Provisions. The District shall seek to include the shortest practicable optional call rights, with and/or without a call premium, on Debt with a final maturity of more than ten (10) years, consistent with optimal pricing of such Debt. Call premiums, if any, should not be in excess of then prevailing market

standards and to the extent consistent with the most advantageous borrowing cost for the District. Non-callable maturities may be considered and used to accommodate market requirements or other advantageous benefits to the District. Capital appreciation Debt and taxable Debt are examples of potential non-callable candidates.

2. Extraordinary Call Provisions. The District, 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, credit-related events of the District or the user of the project or facilities financed, or other matters, as the District may determine is necessary or desirable.

E. Payment of Interest

1. Current Interest Debt may be issued.
2. Deferred Interest Debt. Debt of the District 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). This may be done 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 District 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 an auction or other method.

G. Tender Options on Debt

The District may issue Debt subject to the right or obligation of the holder to tender the Debt back to the District 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 District to make payments to the holder upon any such tender may be secured by (i) 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, (ii) a liquidity or similar account into which the District shall deposit and maintain an amount at least equal to the principal amount of the Debt subject to tender, or (iii) other means of self-liquidity that the District deems prudent.

H. Multi-Modal Debt

The District 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, 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 District 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 District, 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 (i) maximize the rate of return on such amounts; (ii) minimize the risk of loss; (iii) minimize volatility in the value of such investments; and (iv) maximize liquidity so that such amounts will be available if it is necessary to draw upon them.

VIII. Maintenance of Liquidity; Reserves

The District shall maintain unencumbered reserve amounts sufficient in the determination of the District to cover unexpected revenue losses, operating and maintenance costs, extraordinary payments and other contingencies, and to provide liquidity in connection with the District's outstanding Debt.

IX. Investment of Debt Proceeds and Related Moneys

Proceeds of Debt and amounts in the District'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 District.

X. Third Party Credit Enhancement

The District 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 (a "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 two nationally recognized credit rating agencies ("Rating Agencies") preferably to be equal to or better than those of the District;
2. Short-term ratings from at least two Rating Agencies of at least P-/A-I+ or equivalent;
3. Experience providing such facilities to state and local government issuers;
4. 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
5. Willingness to agree to the terms and conditions proposed or required by the District.

XI. Use of Derivatives

Derivative products will be considered where appropriate in the issuance or management of debt only in instances where it has been demonstrated 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 project cost. An analysis of early termination costs and other conditional terms will also be performed given certain financing and marketing assumptions. Such analysis will document the risks and benefits associated with the use of the particular derivative product. Derivative products will only be utilized with prior Board approval.

XII. Methods of Sale and Pricing of Debt

There are three principal methods for the initial sale of Debt: (i) competitive; (ii) negotiated and (iii) private placement. The District shall utilize that method of sale that (a) is reasonably expected to produce the most advantageous interest cost with respect to the Debt and (b) provides the District with the flexibility necessary or desirable in connection with the structuring, timing or terms of such Debt. The District shall utilize such method that is likely to provide the most advantageous borrowing costs and execution on behalf of the District.

Debt may be sold at such prices, including at par, a premium or a discount, as the District may determine is likely to produce the most advantageous interest cost under then prevailing market conditions, subject to compliance with applicable State law.

XIII. Debt Redemption Programs

The District 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 Chief Financial Officer. 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 District.

XIV. Professional Services

The District may retain professional services providers as necessary or desirable in connection with (i) the structuring, issuance and sale of its Debt; (ii) monitoring of and advice regarding its outstanding Debt; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation Bond Insurance, Credit Facilities, Derivatives and investment agreements; and (iv) other similar or related matters. Professional service providers may include financial advisors, bond counsel, disclosure counsel, District 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.

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

A. Financial Advisors

The District may utilize one or more Financial Advisors to provide ongoing advisory services with respect to the District's outstanding and proposed Debt and related agreements, including without limitation Credit Facilities, Derivatives, investment agreements and other similar matters.

B. Bond Counsel, Disclosure Counsel and Other Legal Counsel

1. Bond Counsel. The District may utilize one or more bond counsel firms to provide ongoing legal advisory services with respect to the District'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 District shall require a written opinion from the District'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.
2. Disclosure Counsel. The District may utilize a disclosure counsel firm to provide ongoing legal advisory services with respect to initial and continuing disclosure in connection with the District's outstanding and proposed Debt. Such firm may be one of the District's bond counsel firms. The issuance of Debt by the District shall require a written opinion from the District's disclosure counsel, as appropriate, regarding (i) the exemption of the Debt from registration requirements under Federal securities laws, and (ii) their absence of

knowledge, after due review, regarding any material misstatement in or omission from the official statement or other public offering document with respect to the Debt.

3. Other Legal Counsel. The District 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 who are approved by the District.

C. District Consultant

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

D. Trustees and Fiscal Agents

The District 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

The District may engage a team of underwriters, including a senior managing underwriter, in connection with the negotiated sale of its Debt. The District 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, tender option, commercial paper and other similar types of Debt issued by the District.

F. Feasibility Consultants

The District 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 District.

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 District 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: (i) 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; (ii) advice regarding strategies for minimizing arbitrage rebate liability; (iii) the preparation and filing of periodic forms and information required to be submitted to the Internal Revenue Service; (iv) the preparation and filing of requests for reimbursement of any prior overpayments; and (v) other related matters as requested by the District.

The District shall maintain necessary and appropriate records regarding (i) the expenditure of proceeds of Debt, including the individual projects and facilities financed and the amounts expended thereon, and (ii) investment earnings on such Debt proceeds. The District shall maintain such records for such period of time as shall be required by the Code.

H. Other Professional Services

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

XV. Budgeting and Capital Planning

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

XVI. Credit Rating Objectives

The District shall seek to preserve and enhance the credit ratings with respect to its outstanding Debt to the extent consistent, with the District'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 District shall periodically review its debt affordability levels and capacity for the undertaking of new financing obligations to fund its capital improvement plans. Debt affordability measures shall be based upon the credit objectives of the District, criteria identified by rating agencies for high-grade credits, comparison of industry peers and other internal factors of the District.

XVIII. Relationships with Market Participants

The District 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 District shall prepare or cause to be prepared appropriate disclosures as required by Securities and Exchange Commission Rule 15c2-12, the federal government, the State of California, rating agencies and other persons or entities entitled to disclosure to ensure compliance with applicable laws and regulations and agreements to provide ongoing disclosure.

XIX. Periodic Review

The Chief Financial Officer 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 three (3) years for re-approval.

Document Owner: Bogert, Michael

Approvals

- Committees:

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Attachments:

(REFERENCED BY THIS DOCUMENT)

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