

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT #3
D/B/A/ORCAS ISLAND HEALTH CARE DISTRICT

DEBT POLICY

Section I. Purpose and Overview

This Debt Policy is adopted by the San Juan County Public Hospital District #3 d/b/a Orcas Island Health Care District (the “District”) is established to help ensure that all debt is issued both prudently and cost effectively. This policy sets forth comprehensive guidelines for the issuance and management of all financings of the District. Adherence to this policy is essential to ensure that the District maintains a sound debt position and protects the credit quality of its obligations

Section II. Governing Principles

2.1. Compliance with Law. In the issuance and management of debt, the District shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local laws, rules and regulations, as applicable. The following section highlights the legal framework of the debt issuance and roles and responsibilities in debt issuance.

2.2. Governing Law.

A. State Law - The District may contract indebtedness as provided in chapter 70.44 of the Revised Code of Washington (“RCW”). Indebtedness represented by obligations for borrowed money payable from taxes is subject to the limitations on indebtedness provided for in RCW 39.36.020 and Article VIII of the Washington State Constitution. Indebtedness represented by obligations for borrowed money payable from enterprise revenues (revenue bonds) or special assessments (special assessment bonds) is not subject to these constitutional or statutory limitations. Bonds evidencing indebtedness shall be issued and sold in accordance with chapter 39.46. Refunding bonds shall be issued in accordance with chapter 39.53 RCW.

B. Federal Laws, Rules and Regulations - The District shall issue and manage debt in accordance with limitations and constraints imposed by federal rules and regulations, including the Code; the Treasury Department regulations issued thereunder; and the Securities Act of 1933 and Securities Exchange Act of 1934 and applicable Securities and Exchange Commission regulations issued thereunder.

2.3. Permitted Debt by Type. Subject to changes in state laws, the District may legally issue debt using only the debt instruments described below:

- A. **Unlimited Tax General Obligation Bonds** - The District is authorized to issue Unlimited Tax General Obligation Bonds under chapter 70.44.060 RCW, subject to the approval of the Board of Commissioners of the District (the "Board") and approval of the voters within the jurisdiction of the District as required by law. General obligation bonds are interest-bearing, fixed term obligations to the payment of which the issuer has pledged its "full faith and credit", meaning the District is bound to levy taxes and apply other available resources to pay the principal and interest on the bonds when due or as soon thereafter as possible.
- B. **Limited Tax General Obligation Bonds** - The District is authorized to issue Limited Tax General Obligation Bonds under chapter 70.44.060 RCW, subject to the approval of the Board.
- C. **Revenue Bonds** -The District is authorized to issue Revenue Bonds under chapter 70.44.060 RCW, subject to the approval of the Board. Revenue bonds must be paid solely from revenues of the District or its facilities. *May want to delete per note below.*
- D. **Short-term Obligations** - The District may issue short-term obligations, including notes, warrants or other evidences of indebtedness, pursuant to chapter RCW 39.50, subject to the approval of the Board.

2.4. Purpose for Borrowing. The District shall issue short and long-term debt solely for financing the cost of design, acquisition and/or construction of island-appropriate long-lived healthcare capital projects or to repay outstanding debt.

- A. **Unlimited Tax General Obligation Bonds** - The District shall use Unlimited Tax General Obligation Bonds, which require voter approval, for capital purposes.
- B. **Limited Tax General Obligation Bonds** - The District shall use Limited Tax General Obligation Bonds for financing projects of general benefit to the District, for which an annual payment source has been identified.
- C. **Revenue Bonds** - The District shall use Revenue Bonds for funding the cost of improvements relating to systems in a business or facility owned by the District, when it is expected that the business or facility is of enough size and financial stability to support debt repayment.
- D. **Short Term Debt** - The District shall use Short Term Debt for financing projects with a short useful life, or in anticipation of specifically identified revenue, including taxes or proceeds of grants.

2.5. Limitations on Debt Issuance. The District's general obligation indebtedness is constitutionally and statutorily limited to an indebtedness amount not exceeding the following:

1. **.75% of the value** of the taxable property (i.e., assessed valuation), without voter approval, per RCW 39.36.020(2)(a)(i); and

2. **2.5% of the value** of the taxable property, for total outstanding general obligation debt, including non-voter approved debt and bonds issued with the assent of 60% of the voters voting at an election held for that purpose, where the total number of voters casting ballots at the election is not be less than 40% of the number of votes cast in the last state general election, per RCW 39.36.020(2)(b) and Washington Constitution, Article VII, Section 2(b).

For purposes of calculating the District’s legal debt limit, the amount of “general obligation” indebtedness is calculated by including:

- A. General Obligation Bonds (Both voter approved and non-voter approved), including bond anticipation notes which are to be paid off with the proceeds of the bonds. Interest is included only if it has matured and is due and payable.
- B. For deep discount debt (e.g., zero coupon bonds), the face amount of the bond.
- C. Registered warrants issued against the general (current expense) or other tax supported funds.
- D. Lines of credit, to the extent they are drawn upon.
- E. Executory conditional sales or installment sales contracts pledging the full faith and credit of the taxing district. (RCW 39.30.010).
- F. Other obligations of the general or other tax supported funds, except for loan agreements (statutory limit only) with agencies of the state of Washington or the United States of America. (RCW 39.36.060 and 39.69.020).
- G. Capital leases, principal only (RCW 35.42.200).

In calculating the District’s legal debt limit, the District will consult with its legal advisors to determine whether particular obligations are to be treated as debt within the statutory and constitutional limits.

2.6. Ethical Standards Governing Conduct. The District will adhere to standards of conduct as stipulated by the following:

1. The District’s Code of Ethics;
2. The Code of Ethics for Municipal Officer, chapter 42.23 RCW; and
3. Applicable federal laws, rules and regulations.

Section III. Roles and Responsibilities

3.1. Authority of the Board. It is the responsibility of the Board to:

1. Approve projects to be financed
2. Adopt a resolution authorizing the issuance and sale of debt and determine whether the execution of a sale will be delegated to the Superintendent within the parameters for the delegation (RCW 39.46.040);
3. Approve appointment of any professionals associated with the issuance of debt;
4. Approve and oversee the implementation of this debt policy;

5. Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and
6. Approve Issuance and Post-Issuance Tax Compliance and Disclosure Policies.

3.2. Finance Committee. The Finance Committee of the Board shall:

1. Provide oversight for a bond sale, including appropriate review of the bond documents and any disclosure documents;
2. In consultation with the District's counsel and bond counsel determine the most appropriate debt instrument for a proposed sale;
3. Provide for the issuance of debt at the lowest possible cost and risk;
4. Develop a financing structure for a particular bond issue that minimizes the cost and risk to the District, within the parameters set by the authorizing resolution;
5. Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital and other expenditures; and
6. Recommend to the Board the manner of sale of debt.

3.3. Superintendent. As the person responsible for the administrative management of the District, the primary responsibility for debt management rests with the Superintendent. The Superintendent shall follow the District's Financial Management Policy and this Debt Policy and shall:

1. Determine and manage the available debt capacity; inform the Board of the debt capacity;
2. Monitor opportunities to refund debt and recommend such refunding as appropriate;
3. Develop and implement procedures to ensure compliance with all Internal Revenue Service and Securities and Exchange Commission regulations governing the issuance of debt, including a compliance checklist;
4. Provide for the timely payment of principal of and interest on all debt;
5. Ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
6. Participate in the preparation and review of indebtedness offering and disclosure documents;
7. Together with Bond Counsel help draft an authorizing resolution to be submitted to the Board to authorize debt and establishing parameters for the issuance and sale of such obligations;
8. Comply with all terms and conditions contained in the legal documents governing the debt issued;
9. Submit to the Board all recommendations to issue debt;
10. Provide for the distribution of pertinent information to rating agencies;
11. Maintain a current database with all outstanding debt; and
12. Apply and promote prudent fiscal practices.

Section IV. Professional Services

4.1. Professional Services. The District shall procure professional services as required to execute financing transactions and to advise on non-transaction related work. Professional services may be provided by a Municipal Advisor, Legal Counsel (Bond, Disclosure, and/or Tax Counsel), underwriters, and other service providers such as rating agencies, trustees or escrow agents, verification agents, printers, arbitrage rebate calculation firms, bidding agents, and credit enhancement providers.

Selection Process - The selection of financial and legal professionals to assist the District in carrying out financing programs must be consistent with procurement procedures that may be required by federal, state or local law, or by local policy. If not required by federal, state or local law or policy, the District may elect to use a competitive bid process involving a Request for Proposals (RFP), Request for Qualifications (RFQ), or similar process.

4.2. Appointment of Bond Counsel ("Bond Counsel"). Bond Counsel renders an opinion on the validity of an offering of debt, the security for the offering, and whether and to what extent interest on the debt is exempt from federal income tax.

All debt issued by the District shall be accompanied by a written opinion by legal counsel affirming that the District is authorized to issue the proposed debt, that the District has met all federal, state, and local legal requirements necessary for issuance and, where applicable, a determination of the proposed debt's federal income tax status. This approving opinion and other documents relating to the issuance of debt shall be prepared by a legal firm recognized in Washington to have extensive experience in public finance and tax issues, significant operations in Washington State and experience with Washington State law.

The firm selected as Bond Counsel may be engaged to provide the full range of legal services required in connection with a) the issuance and delivery of particular bond issues ("bonds") and b) on-going legal services for the District financing programs, including advising the District on compliance with regulatory requirements.

The Superintendent shall submit a recommendation for the appointment of Bond Counsel. The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Superintendent shall monitor the services rendered by the Bond Counsel.

A Bond Counsel under contract with the District will not simultaneously represent any other party involved in the District's financing, unless an expressly written waiver of the conflict of interest is obtained from the District.

Section V. Transaction-Specific Policies

5.1. Method of Sale. The District shall select a method of sale that is most likely to achieve the lowest cost of borrowing while taking into account both short-range and long-range

implications for taxpayers and ratepayers, based on a thorough analysis of the relevant rating, security, structure, market conditions, and other factors pertaining to the proposed issue.

5.2. Competitive Bid Method. Debt issued on a competitive bid basis will be sold to the bidder offering the lowest true interest cost to the Issuer.

5.3. Negotiated Sale Method. When market conditions or special complexity or other features of a debt issuance may cause the debt issuance to be less suited for sale by the competitive bid method, the Superintendent will submit to the Board a resolution providing for a negotiated sale.

If debt is sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, yields, priority of orders, and underwriting or remarketing fees.

The District shall evaluate the terms offered by the proposed purchaser(s). The evaluations of prices, interest rates, yields, and fees shall include information about prevailing terms and conditions in the marketplace for comparable issuers.

5.4. Private Placements, Direct Purchases, and Bank Loans. The District may sell debt through a private placement, a direct purchase or a bank loan. If a direct purchase or bank loan is authorized, the District shall seek several proposals. The proposals shall include a term sheet, requesting quotes for financing alternatives consistent with the District's goals. The proposers' a) fees and rates, b) terms and structure, and c) acceptance of any terms and conditions requested by the District may be a factor in evaluating the proposals

5.5. Debt Structural Elements.

- A. Maturity** - The District shall issue debt with an average maturity that is not longer than the weighted average reasonably expected economic life of the assets being financed. The District shall not issue debt with a maturity longer than 30 years.
- B. Debt Service Structure** - Unless otherwise justified, debt service should be structured on a level annual payment basis. Refunding bonds issued to achieve interest cost savings should typically be structured to produce approximately level savings in each fiscal year. If appropriate or required by applicable bond covenants, debt service reserve funds may be used.
- C. Coupon Type** - Unless otherwise justified, long-term debt will be sold with maturities paying interest on a periodic basis.
- D. Redemption Features** - For each transaction, the District shall evaluate the costs and benefits of call provisions.
- E. Tax-exemption** - Unless otherwise justified, the District shall issue its debt on a tax-exempt basis.

Section VI. Compliance Policies

6.1. Issuance and Post-Issuance Tax Compliance Policies and Procedures. The District, in consultation with its Bond Counsel, municipal advisor (if any) and any other members of its financing team, as appropriate, shall adopt comprehensive issuance and post-issuance compliance policies and procedures to ensure that the District complies with requirements of the Code, both at the time of issuance and post-issuance, as necessary to maintain the tax exemption for tax-exempt debt. The compliance policy or procedures shall provide for procedures to monitor compliance periodically while the debt is outstanding whether requirements of the federal arbitrage regulations and the restrictions of the federal private activity bond regulations applicable to the investment and use of proceeds of tax-exempt bond issuances, as well as the facilities financed with those proceeds, are being properly observed.

6.2. Arbitrage Liability Management. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the District shall solicit the advice of Bond Counsel and other qualified experts about arbitrage rebate calculations. The District shall, when deemed necessary or when required, contract with a qualified third-party for preparation of the arbitrage rebate calculation.

The District shall maintain an internal record-keeping system for tracking investments and expenditures of bond proceeds.

Section VII. Other Policies

7.1. Accounting for the Issuance of Debt. The District shall account for the issuance of debt on a cash basis, as allowed by the Washington State Auditor's Office under the authority of RCW 43.09.200. Cost of issuance shall be reported as expenditure rather than netted against proceeds.

7.2. Evaluating the Impact of Capital Program Spending. The District shall evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition.

7.3. Debt Policy Review. The District shall review and update its debt policy, as necessary - but not less than once every four (4) years.

Policy Adopted: December 18, 2018