LOCAL DEBT POLICY

This Local Debt Policy (the "Debt Policy") of the Mountains Recreation and Conservation Authority ("MRCA") was approved by the Governing Board of MRCA (the "Governing Board") on ____________________, 2019. This Debt Policy may be amended by the Governing Board as it deems appropriate from time to time in the prudent management of the debt of MRCA.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by MRCA and is intended to comply with Government Code Section 8855(i), as amended by Senate Bill 1029, enacted as Chapter 307, Statutes of 2016, effective January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize MRCA's interest and issuance costs; to maintain the highest possible credit ratings consistent with MRCA's operating and capital needs from time to time; to provide compliant financial disclosure and reporting; and to maintain financial flexibility for MRCA.

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

1. Findings

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

- Maintain MRCA's sound financial position.
- Ensure MRCA has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect MRCA's credit-worthiness.
- Ensure that MRCA's debt is consistent with MRCA's planning goals and objectives and capital improvement program or budget, as applicable.

2. Policies

A. Purposes For Which Debt May Be Issued

MRCA believes that prudent amounts of debt can be an equitable and cost-effective means of financing capital assets, capital projects, and other project needs of MRCA. For any project or capital asset that is expected to use debt financing, the Executive Officer and the Financial Officer shall obtain reasonable cost estimates of the proposed project or capital asset and of the debt financing, including specific revenue accounts that will provide payment for the debt service. For a proper matching of revenues to debt repayment, an evaluation of the availability, timing, and amount of grant revenues shall be undertaken in connection with the proposed financing of any capital asset, capital project, or other project for which a grant has been awarded to MRCA. These considerations will allow an analysis of the project's potential impact on MRCA's financial position. MRCA acknowledges that there may be incremental operating and/or additional maintenance costs associated with the project, and the Executive Officer and the Financial Officer may identify sources of eligible revenue, if any, to pay for such estimated costs.

Cash flow for MRCA operational costs, including but not limited to administrative and programmatic expenditures and ongoing maintenance of its land and capital assets, is subject to seasonal and other fluctuations in MRCA's receipt of revenues. Revenues supporting these activities may include revenues derived from user fees of properties owned by MRCA, grant funding, and special financing districts, among others. MRCA may consider the issuance of short-term debt to cover temporary shortfalls in cash flow for MRCA's operational costs due to timing of receipt of revenues and the lack of cash on hand to cover the temporary deficit.

(i) Long-Term Debt. Long-term debt is considered under this Debt Policy to generally consist of debt with a term in excess of seven (7) years and may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land (or rights-of-way, long-term easements, or similar interests in land) to be owned and/or operated by MRCA.

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

- The project to be financed will provide benefit to constituents over multiple years.
- The project to be financed has been or will be approved by the Governing Board.
- The capital asset or project has been, or will be, coordinated with MRCA's planning goals and objectives.
- To assure that long-term debt is not issued to finance projects with a short useful life, the weighted average maturity of the debt does not exceed 120 percent of the remaining weighted average economic life of the capital assets or projects to be financed or refinanced by the debt, unless specific circumstances exist that would mitigate the extension of time to repay the debt and it would not cause MRCA to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
- MRCA estimates that sufficient income or revenues will be available to service the debt through its maturity.
- MRCA determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
- It is the most cost-effective funding means available to MRCA, taking into account cash flow needs and other funding alternatives.

- It is fiscally prudent and meets the guidelines of this Debt Policy. Any consideration of debt financing shall consider financial alternatives, including pay-as-you-go funding and use of existing or future cash reserves, or combinations thereof.

- To the extent the debt is used to refinance outstanding debt, debt service savings or other benefits of a debt restructuring will be realized, as further described in subsection (c) below.

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

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

Except with respect to refundings for non-economic benefits or instances in which a bullet payment or spike in debt service is being refinanced, MRCA generally will seek in a refunding to achieve debt service savings which, on a net present value basis, are at least three percent (3%) of the principal of the refunded debt. A refunding which produces a net present value savings of less than three percent (3%) or negative savings will be considered on a case-by-case basis. All refundings must be approved by the Governing Board.

(ii) Short-term debt. Short-term borrowing, such as commercial paper, lines of credit, or revenue anticipation notes, may be used in compliance with the applicable requirements of state and federal law for the following purposes:

- To cover temporary shortfalls in cash flow for MRCA's operational costs due to timing of receipt of revenues and the lack of cash on hand to cover the temporary deficit. Examples of such operational costs include, but are not limited to administrative and programmatic expenditures, ongoing maintenance of MRCA's land and capital assets, and insurance premiums.

- For interim project financing, such as anticipation notes or lines of credit in anticipation of long-term borrowing or receipt of grant revenues for construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land (or rights-of-way, long-term easements, or similar interests in land) to be owned and/or operated by MRCA.

- To finance short-lived capital projects or assets, including but not limited to purchases of vehicles or equipment with a useful life of one year or more.

- For any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs.

Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. To the extent that a capital project or asset is financed with short-term debt, the final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, if applicable, meet requirements necessary to maintain tax-exempt status. Unless the Governing Board determines that extraordinary circumstances exist, short-term debt must not exceed seven (7) years.

B. Types of Debt

MRCA recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. Regardless of what financing structure is utilized, due diligence review must be performed for each transaction, including review of potential risks and benefits, and analysis of the impact on MRCA's creditworthiness, debt affordability and capacity. In order to maximize the financial options available to benefit the public, it is the policy of MRCA to allow for the consideration of issuing all generally accepted types of debt authorized for joint powers authorities, including, but not exclusive to the following:

General Fund-Supported Debt: Debt service payments are budgeted in the annual budget appropriation by MRCA from its general fund, consistent with provisions of the Joint Exercise of Powers Act. Without limiting the foregoing, general fund-supported debt may include operating leases and lease-purchase agreements for equipment or other capital assets meeting the criteria of this Debt Policy on an as-needed basis. General Fund Supported Debt may also include bonds or other debt issued to refund obligations imposed by law, such as judgments or unfunded accrued actuarial liabilities for pension plans or other post-employment benefits, but only after independent study and evaluation.

Special Revenue Debt: Revenue debt typically is structured as a limited liability obligation tied to a specific enterprise or special fund revenue stream derived from the system of which the project being funded is a part, or where the projects or activities financed are otherwise permissible uses of the special revenue. Special revenue debt may include, but is not limited to, debt secured by grant revenues to finance the purposes for which the grant has been secured.

Special District Land Secured Debt: MRCA's special districts for land secured financing primarily consist of Community Facilities Districts (CFDs) and 1913/1915 Act Assessment Districts (Assessment Districts). MRCA will consider special district land-secured financing in order to address a public need or provide a public benefit. Criteria shall be adopted by the Governing Board for the use of special district land-secured financing, which may include minimum value-to-lien ratios and maximum tax burdens. In order to protect bondholders as well as MRCA's credit rating, MRCA will also comply with all State guidelines regarding the issuance of special district or special assessment debt. The credit criteria for Special District Land Secured Debt will be reviewed on a case by case basis in consultation with its Municipal Advisor.

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

To maintain a predictable debt service burden, MRCA will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. Variable rate debt sometimes can provide a lower cost of borrowing in the short run, but may involve greater medium-term or long-term risk. Due diligence review must be performed for each transaction, including review of potential risks and benefits and analysis of the impact on MRCA creditworthiness and debt affordability and capacity. To mitigate medium-term or long-term risk attendant to variable rate debt instruments, MRCA will limit the term of any variable rate debt to seven (7) or fewer years.

When making the determination to issue debt in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

MRCA will not employ derivatives, such as interest rate swaps, in its debt program, because these products bear certain risks not associated with standard debt instruments. MRCA only may consider utilization of derivative products if (i) sufficient understanding of the products and sufficient expertise for their appropriate use has been developed, (ii) the use of derivatives as a hedging device to manage risk has been specifically recommended by MRCA's Municipal Advisor, (iii) the Governing Board has amended this Debt Policy to allow the use of the type of derivative product recommended by the Municipal Advisor, and (iv) the Governing Board has adopted a comprehensive derivative policy prior to any utilization of such instruments.

C. Relationship of Debt to Capital Improvement Program and Budget

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

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

Prior to the issuance of debt or other financing obligations to finance a project, MRCA will carefully consider the overall long-term affordability of the proposed debt issuance. MRCA shall not assume more debt or other financing obligations without conducting a review of MRCA's ability to assume and support additional debt service payments. MRCA will consider its long-term revenue and expenditure trends and the impact on operational flexibility. The evaluation process will strive to achieve and or maintain debt levels consistent with its current operating and capital needs.

The issuance of short-term debt to cover temporary shortfalls in cash flow for MRCA's operational costs due to timing of receipt of revenues and the lack of cash on hand to cover the temporary deficit shall be coordinated with MRCA's budgeted and projected revenues and expenditures.

D. Policy Goals Related to Planning Goals and Objectives

MRCA is committed to financial planning and budget administration. This Debt Policy has been adopted to assist with the MRCA's goal of maintaining fiscal sustainability and financial prudence. MRCA intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in MRCA's annual operating budget.

This Debt Policy is intended to improve the quality of decisions, assist with the determination of the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning. It is a policy goal of MRCA to protect ratepayers, constituents, and taxpayers by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

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

Except as otherwise described in Section 2.A., when refinancing debt, it shall be the policy goal of MRCA to realize whenever possible, and subject to any overriding non-financial policy considerations, minimum net present value debt service savings equal to or greater than 3% of the refunded principal amount.

E. Internal Control Procedures

(i) Continuing Disclosure, Federal Tax Covenants, and Investment of Debt Proceeds.

When issuing debt, in addition to complying with the terms of this Debt Policy, MRCA shall comply with all continuing bond disclosure requirements and the post-issuance compliance with Federal Tax Requirements applicable to Tax-Exempt Bonds, and any other applicable policies regarding initial bond disclosure and investment of bond proceeds.

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

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- MRCA's investment policies to the extent they relate to the investment of bond proceeds and are not otherwise governed by the applicable bond documents.

(ii) Monitoring the Use of Debt Proceeds; Recordkeeping.

MRCA shall be vigilant in using debt proceeds in accordance with the stated purpose at the time that such debt was issued. In furtherance of this priority, the following procedures shall apply:

(a) The Financial Officer shall retain for the period specified in subsection (d) below a copy of each annual report filed with the California Debt and Investment Advisory Commission (CDIAC) pursuant to Section 8855(k) of the California Government Code concerning (1) debt authorized during the applicable reporting period (whether issued or not), (2) debt outstanding during the reporting period, and (3) the use during the reporting period of proceeds of issued debt.

(b) In connection with the preparation of each annual report to be filed with CDIAC pursuant to Section 8855(k) of the California Government Code, the Financial Officer or the designee of the Financial Officer shall keep a record of the original intended use for which the debt has been issued, and indicate whether the proceeds spent during the applicable one-year reporting period for such annual report comport with the intended use (at the time of original issuance or as modified pursuant to the following sentence). If a change in intended use has been authorized subsequent to the original issuance of the debt, the Financial Officer or the designee of the Financial Officer shall indicate in the record when the change in use was authorized and whether the Governing Board, Executive Officer, or another MRCA official has authorized the change in intended use. The Financial Officer shall report apparent deviations from the intended use in debt proceeds to the Executive Officer for further discussion, and if the Executive Officer determines appropriate in consultation with legal counsel (which may be bond counsel, if applicable, or Staff Counsel), to the Governing Board.

(c) If the debt has been issued to finance a capital project and the project timeline or scope of project has changed in a way that all or a portion of the debt proceeds cannot be expended on the original project, the Financial Officer shall consult with the Executive Officer and legal counsel (which may be bond counsel, if applicable, or Staff Counsel) as to available alternatives for the expenditure of the remaining debt proceeds (including prepayment of the debt).

(d) A copy of all debt-related records shall be retained at MRCA's offices. At minimum, these records shall include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each MRCA financing (to the extent available). Such records shall be retained while any debt, or bonds of an issue, are outstanding and during the six-year period following the final maturity or redemption of the debt or bond issue or, if later, while any debt that refunds debt or bonds of that original issue are outstanding and for the six year period following the final maturity or redemption date of the latest refunding debt or bond issue.

F. Initial Disclosure

When MRCA determines to issue debt directly, the Financial Officer shall request the involved departments or staff members to prepare, review or update portions of any required offering document or preliminary official statement (the "POS") within their particular areas of knowledge for which they are responsible. The information contained in the POS is developed by personnel under the direction of the Financial Officer, with the assistance of the financing team, including the Bond Counsel, Disclosure Counsel, Staff Counsel, and MRCA's Municipal Advisor. The financing team shall assist staff in determining the materiality of any particular item, and in the development of specific language for the POS. Once the draft POS has been substantially updated, the entire draft POS is reviewed in its entirety to obtain final comments and to allow the underwriters, if any, to ask questions of MRCA's senior officials.

A substantially final form of the POS is provided to the Governing Board in advance of approval, generally by including the document with the agenda material relating to the approval of the debt, to afford such Governing Board an opportunity to review the POS, ask questions and make comments.

G. Waivers of Debt Policy

There will be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of MRCA. If MRCA staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the Governing Board, it will prepare an analysis for the Governing Board describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on MRCA constituents, if applicable.

Upon a majority vote of the Governing Board, one or more provisions of this Debt Policy may be waived for a debt financing,

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by MRCA in accordance with applicable laws.

H. Credit Quality

The Financial Officer shall be responsible for maintaining MRCA's relationships with the major rating agencies that rate MRCA's bond issues (such as S&P Global Ratings, Fitch Ratings and Moody's Investor's Service), if any. These agencies' rating criteria often change, and MRCA cannot control the decisions made by any rating agency. However, with respect to each debt issue for which MRCA will seek a rating assignment, MRCA will strive to obtain and maintain the highest possible underlying or uninsured rating consistent with its current operating and capital needs. MRCA will consider the public issuance of non-rated special assessment and community facilities debt, but only upon recommendation of a Municipal Advisor and provided such debt meets the requirements of MRCA.

MRCA will consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings consistent with its current operating and capital needs.

To the extent a reserve fund provides an economic benefit that offsets the cost of funding the reserve fund, as determined by the Financial Officer, in consultation with a Municipal Advisor and, if applicable, the underwriter for the bonds, MRCA may fund a reserve fund for the proposed bonds (in cash or through the purchase of a debt service reserve surety bond or insurance policy), up to the maximum amount permitted by applicable law or regulation. MRCA may also consider bond insurance, bank letters of credit, or other forms of guarantee or bond reserve fund surety policies so long as premium or costs is more than offset by a reduction in interest cost.

I. Method of Issuance

MRCA will determine, on a case-by-case basis, whether to sell its bonds or other debt competitively or through negotiation in consultation with its Municipal Advisor. Public offerings through an underwriter can be executed through either a competitive sale or a negotiated sale. Private placement or direct lending is a negotiated process with a selected purchaser or lender.

Competitive Sale - In a competitive sale, MRCA's bonds shall be awarded to the bidding underwriter providing the lowest true interest cost (TIC), as long as the bid adheres to requirements set forth in the official notice of sale.

Negotiated Sale - MRCA recognizes that some securities are best sold through negotiation with a selected underwriter. In consideration of a negotiated sale, MRCA shall assess the following circumstances in determining the advisability of such a sale:

- Issuance of variable rate or taxable bonds
- Complex structure or credit considerations (such as non-rated bonds), which requires a strong pre-marketing effort
- Significant par value, which may limit the number of potential bidders
- Unique proprietary financing mechanism (such as a financing pool), or specialized knowledge of financing mechanism or process
- Market volatility, such that MRCA would be better served by flexibility in the timing of its sale in a changing interest rate environment
- When an underwriter has identified new financing opportunities or presented alternative structures that financially benefit MRCA that could not be achieved through a competitive bid.
- As a result of an underwriter's familiarity with the project/financing, which enables MRCA to take advantage of efficiency and timing considerations.

Private Placement or Direct Lending – From time to time MRCA may elect to issue debt on a private placement or direct lending basis with a selected purchaser or lender. Such method shall be considered if it is demonstrated to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.