County of Nevada
Debt Management Policy

Purpose

The Debt Management Policy serves as a tool in managing the County's financial affairs. The County Board of Supervisors (the "Board") recognizes that there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the County's debt position. The County recognizes that it may need to enter into debt obligations to finance projects and to meet fiscal responsibilities. Debt financing is a powerful and necessary tool for undertaking major capital projects that cannot be reasonably financed on a pay-as-you go basis. Accordingly, this Debt Management Policy confirms the commitment of the Board, staff, advisors and other decision makers to adhere to sound financial management practices.

The Policy objectives are as follows:

- Maintain financial discipline, prudence and long term stability.
- Enhance the quality of decisions by establishing a systematic and prudent approach to debt issuance and debt management.
- Facilitate approval of debt issuance using predetermined policies.
- Protect the County's good credit worthiness and minimize the County's borrowing costs.
- Incorporate debt management practices into the County's planning and project management activities.

Scope

This policy includes all debt that must ultimately be approved by the Nevada County Board of Supervisors. The debt policies and practices of the County are subject to and limited by applicable provisions of state and federal law and to prudent debt management principles. This policy is in conformance with and does not supplant the Tax-Exempt Financing Compliance Procedures adopted by the Board of Supervisors, which remains in full forces and effect. The County uses financing techniques prescribed under existing law for projects that require financing beyond the current fiscal year. These techniques can include, but are not limited to lease financings through lease revenue bonds or certificates of participation, enterprise revenue bonds, and assessment and Mello-Roos bonds. This policy is not intended to address interfund borrowing; interagency borrowing; loans from the County Treasury pursuant to the California State Constitution; or investment activities of the County Treasurer including but not limited to reverse repurchase agreements and securities lending.

Delegation of Authority

The policy conforms with all applicable government codes. This Policy requires that the Board specifically authorize each financing proposal based on the recommendation of the County Executive Officer (CEO). Policy implementation and authority over the County's debt program will lie primarily with the CEO, subject to the review of the CEO's Ad Hoc Debt Advisory Committee (the "DAC"). The DAC

will review financing requests within the scope of this Debt Management Policy and ensure compliance with the policy, including legal limitations, sources of funds, term and structure, method of sale, and other relevant policy requirements related to a given debt issuance.

The DAC is composed of the following or their designees: CEO, Auditor-Controller, Treasurer-Tax Collector, and County Counsel. County staff will be supported on an as-needed basis by other members of the financing team and/or a Financial Advisor. The services of other outside consultants may be retained if necessary.

This Policy will be reviewed periodically and updated as needed. Any changes to the Policy are subject to approval by the Board. While adherence to this Policy is required, the County recognizes that changes in capital markets, County programs, and other unforeseen circumstances may produce situations that are not covered by this Policy. This may require modification or exceptions to achieve Policy objectives. In these cases, flexibility is appropriate, provided specific authorization from the Board of Supervisors is obtained.

Legal Limitations

All debt issued by Nevada County shall be in compliance with all pertinent state and federal statues and in compliance with all regulations declared by agencies that maintain jurisdiction over debt issuance. All debt issues by Nevada County shall conform to the provisions of this policy, unless waived by the Board of Supervisors.

California Government Code Section 29909 limits General Obligation Bond indebtedness to 5% (five percent) of the total assessed valuation of all taxable real and personal property within the County, excluding Public Financing Authority lease revenue bonds, Public Facility Corporation certificates of participation, Private Activity Bonds, and Assessment District Debt.

Purpose and Use of Debt

The County may issue debt for either new money or refunding purposes. The County's selection among available financing instruments depends on legal constraints, investor demand, capital market activity and the type of project being financed. All debt issuance will fall within the limits permitted by the California Constitution and state law. The County may engage in issuance of the following types of debt when deemed appropriate.

Short-Term Debt: The County may use short-term obligations (i.e. with final maturities of thirteen months or less) as a cash management tool to provide interim financing and/or to bridge temporary cash flow deficits within a fiscal year. Examples of short term debt are bond anticipation notes, grant anticipation notes, tax and revenue anticipation notes, and other types of short-term debt endorsed by statute or regulatory authority that serves a beneficial public purpose.

Long-Term Debt: Long-term obligations (i.e. with final maturities greater than thirteen months) are preferred for financing essential capital activities including the acquisition, construction and rehabilitation of major capital assets. The County may also use long-term debt or lease obligations to

finance or refinance capital equipment or facilities. Prior to entering into any lease financing, the County will evaluate (1) the useful life of assets financed, (2) terms and conditions of the lease and (3) budgetary, debt capacity and tax implications. Examples of long-term debt include but are not limited to lease financings through lease revenue bonds or certificates of participation, enterprise revenue bonds, assessment and Mello-Roos bonds, and General Obligation bonds.

Capital Planning Policies

The Capital Facilities Subcommittee of the County Board of Supervisors has been previously established to oversee and approve major capital projects, and the subcommittee will be involved in capital planning related to the issuance of debt within the scope of the subcommittee and of this Debt Management Policy. The County will attempt to fund capital improvement projects with grants, state/federal funding, fees or other revenue sources as part of its broader capital improvement plan. When such funds are insufficient the County will use dedicated revenues to fund projects, or if not available, the use of general revenues, operating surplus, and/or debt financing. The County may consider leveraging these resources with bonds, certificates of participation or other appropriate financing structures. Debt may be issued to finance needed equipment, facilities or infrastructure identified by the Capital Facilities Master Plan, adopted County Budget, or County Budget as amended by the County Board of Supervisors.

Debt Level/Affordability Measures

The County shall establish an affordable level of debt to preserve credit quality and ensure financial stability. Target ratios identified in this policy are guidelines and should be revisited as the County's capital planning and financial resources change. The principal affordability measures will be the following:

1. Total Governmental Funds Debt Service as a Percentage of Total Governmental Funds Expenditures: This is a ratio of total governmental fund-supported debt service to total governmental fund expenditures. This is a measure of the annual fixed cost burden that debt places on the County. Generally, a lower ratio means less burden. This ratio should be maintained in the range below 8.0% (low range of Standard & Poor's rating methodology).

2. Net Direct Debt as Percentage of Total Governmental Funds Revenue. This ratio of total outstanding direct debt to total governmental funds revenue measures the total debt burden on the County's revenue position. Generally, a lower ratio means less burden. This ratio should be maintained below 30.0%. (low range of Standard & Poor's rating methodology).

The debt amount to be used for the above calculations is the County's Governmental Funds Debt Service and Net Direct Debt. Direct debt is the total of the County's long-term obligations supported by general revenues and taxes, such as bonds and leases, excluding self-supporting enterprise debt. Net direct debt is the County's total debt less any accumulated resources earmarked for paying off such debts.

The County may determine that a particular improvement is of such high necessity to County residents that it must incur obligations in excess of these thresholds. To the extent such thresholds are ever exceeded for such purposes, it is the intention of the County to avoid future occurrences of debt or other fixed obligations until such thresholds are restored.

Term and Structure

Long-term debt financing of capital projects will be for a period not to exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 15-30 years. Debt service will be structured to be level over the length of the bonds except in those instances where it is economically advantageous to the County or meets other county objectives to structure debt service differently.

Interest Rate

To maintain a predictable debt service burden, the County shall first consider the use of fixed-rate debt to finance its capital needs and may consider variable rate debt when it is beneficial to do so. Before incurring variable rate debt, careful consideration will be given to current market conditions and trends, including the costs and availability of bank liquidity facilities. The County's cost for administering variable rate debt will be considered when comparing fixed and variable rate debt.

Capitalized Interest

The County may include within its borrowings additional funds to pay interest on the obligation during an initial period. Such capitalizing of interest will be most commonly used to secure lease obligations during the project construction period, as generally required under California law, or to secure an improved financing structure for strategic management of cash flow.

Credit Enhancement

Credit enhancement may be considered on a case-by-case basis to improve a credit rating on a County debt obligation. Types of credit enhancements include letters of credit, bond insurance and other credit enhancements and shall only be used to the enhancement of the County's overall financial results.

Derivatives

The County's preference is not to employ derivative instruments, such as interest rate swaps, in its debt program. If derivative products are used, they will only be employed after careful evaluation of potential benefits and risks and after adoption by the Board of a separate derivatives policy.

Credit Ratings and Relationships

The County seeks to maintain and, if possible, improve its credit ratings for long and short term debt without compromising the County's policy objectives. By maintaining the highest possible credit ratings, the County will maintain a strong reputation with the investor community, and will minimize borrowing costs. The Deputy County Executive Officer (Deputy CEO) is responsible for maintaining relationships

with the rating agencies that assign ratings to the County's various debt obligations. The County may solicit a credit rating review at its discretion and upon approval of the Deputy CEO.

Arm's Length Transactions

The County will endeavor to have "Arm's Length Transactions," in which the buyers (underwriters) of the debt have no relationship with the County. For Arm's Length Transactions, the County and the buyer are both acting in their own self-interest and are not subject to any pressure or duress from the other party.

External Finance Professionals

Depending on the type of debt issue, external finance professionals may be selected by referral, reputation, prior service to the County, special expertise, or by request for qualifications. While the RFQ process generally produces the lowest cost of issuance, time constraints, expertise, and other derived benefits could make sole-source award the most beneficial alternative for the County. All factors should be considered in determining the process for finance team selection.

The County shall engage the services of an independent municipal advisor (Financial Advisor), which has a fiduciary duty to represent the County interests, to advise the County generally on debt related matters and in connection with County financings. The Financial Advisor will be registered as an Independent Registered Municipal Advisor with the SEC and any other regulatory body requiring registration to provide relevant financial advisory services.

The County shall engage bond and/or tax counsel for each transaction, and will engage underwriters, disclosure counsel, and other professional services as needed.

Method of Sale

The County's goal is to protect the public's interest by obtaining the lowest possible overall costs of funds. To obtain this goal, the County may use a competitive, negotiated, or private placement/direct purchase method of sale. The choice of sale method will be based on an analysis of financial and market conditions, security structure, relevant ratings, and other factors pertaining to the debt issue. The appropriate method should be determined on a case-by-case basis with input from the internal finance team and external professionals.

Some of the elements that generally favor the use of a competitive sale include:

1. The market is familiar with the County and its credit;
2. The rating of the issue is at least in the "A" category or above, either with credit-enhancements or unenhanced;
3. The issue does not include innovative or new financing features that require extensive explanation to investors or pre-sale marketing;
4. The debt structure has a good standing long term revenue stream or the County's full faith and credit.

When it is determined that a negotiated sale or Direct Purchase may provide a more favorable outcome to the County, the following practices are recommended to be observed:

1. The underwriter (in a negotiated sale) or lender (in a Direct Purchase) selection process should be by request for proposals, to the extent feasible;
2. The firm serving as an underwriter or lender cannot be the financial advisor for that particular bond issue;
3. The issuer and its Financial Advisor shall remain actively involved in each step of the negotiation and sale process;
4. The underwriter or lender shall disclose any actual or potential conflicts of interest resulting from their participation in the specific bond issue;
5. Disclosure is required of any and all financial professionals submitting joint proposals or any existing or planned arrangement pertaining to the bond issue between outside professionals to share tasks, responsibilities, the method used to calculate the fees to be earned, and any changes thereto; and
6. The County should review the bond purchase agreement and agreement among underwriters; ensuring that it is acceptable to the County and it governs all transactions during the underwriting period.

Refunding Policy

The County will consider opportunities and, with assistance from its Financial Advisor as needed, shall evaluate the economic benefit of current and advance refundings of outstanding debt issues when advantageous, legally permissible, and financially prudent. Refundings may be undertaken to modify interest rate risk, eliminate restrictive or burdensome bond covenants, restructure the payment schedule or type of debt instrument used, take advantage of lower interest rates and achieve debt service cost savings, or when existing bond covenants or other financial structures impinge on prudent and sound financial management.

A current refunding is one in which the refunding bonds are issued less than 90 days before the date upon which the refunded bonds will be redeemed. An Advance Refunding is one in which the refunding bonds are issued more than 90 days prior to the date upon which the refunded bonds will be redeemed. Advance refundings can be used to refinance debt before the date the outstanding debt becomes due or callable. Under current tax laws, tax-exempt debt can only be refunded once on an advance basis.

1. **Debt Service Savings.** The County may issue refunding bonds when net present value savings expressed as a percentage of the refunded bond principal amount equals or exceeds 3% for current refundings and 4% for advance refundings. Present value savings will be net of all costs of the refinancing, will consider the difference in interest earnings of the debt service reserve funds of the refunded and refunding bonds, and may include any cash associated with the refunded bonds held by the Trustee.
2. **Savings Threshold Considerations.** Adjustments to the savings threshold for Advance Refundings may be justified based on the length of time before the call date of the bonds to be

refunded. With longer refunding escrows, the County should consider the prudence of a minimum present value cash flow savings threshold higher than 4% of refunded par.

3. **Restructurings.** The County will refund debt when it is in its best interest to do so. Refundings will include restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.
4. **Term of Refunding Issues.** The County will refund bonds within the term of the originally issued debt. However, the County may consider maturity extension to achieve a desired outcome, provided that such extension is legally permissible. The County may also consider shortening the term of the originally issued debt to realize greater interest savings.
5. **Escrow Structuring.** The County shall utilize the least costly securities available in structuring refunding escrows. The County will examine the viability of an economic versus legal Defeasance on a net present value basis. For open market securities, a certificate from a third party bidding agent, who is not a broker dealer, must state that the securities were procured through an arm's length, competitive bid process and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an Underwriter, Agent or Financial Advisor sell escrow securities to the County from its own account.

Bond Proceeds

The use of proceeds from long-term financings will be limited to the uses authorized by law and allowed by the provisions of the particular debt issue.

Expenditure of Proceeds: Generally, these limitations will allow for paying costs of planning, design, land, construction or acquisition of buildings, permanent structures, attached fixtures and/or equipment, movable furniture and equipment, and also the costs of planning and issuing the debt. Generally, under the tax rules, the County must have a reasonable expectation that it will expend bond proceeds within three years of issuance.

Investment of Proceeds: The Deputy CEO in concert with the Treasurer Tax Collector is responsible for investing all bond or certificate of participation proceeds held by the County and directing the investment of all funds held by a trustee under an indenture or trust agreement. Investments will be made to obtain the highest level of safety and be consistent with those authorized by the County Investment Policy and state and federal law.

Arbitrage Compliance

The Auditor-Controller or Trustee is charged with the responsibility for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on debt proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County’s outstanding debt issues. An arbitrage consultant may be retained to consult regarding arbitrage concerns.

Primary and Continuing Disclosure

Official statements accompanying debt issues, financial reports and continuing disclosure statements will meet, at a minimum, the standards articulated by the Government Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC) and the Generally Accepted Accounting Principles (GAAP).

In association with a debt issuance, the County shall commit to providing continuing disclosure in order to enable the underwriters of such debt to comply with the requirements of the SEC. General financial reporting and certification requirements embodied in bond covenants are monitored to ensure that all covenants are complied with.

Each responsible County department, district or authority issuing or managing debt will:

- Observe all applicable state and federal regulations and laws regarding disclosure, including specifically Rule 15(c)2-12 of the SEC
- File all Continuing Disclosure annual reports and material event notices with the Electronic Municipal Market Access (EMMA) system, managed by the MSRB, in a timely manner. The County may retain the services of a dissemination agent to assist with these filings

The County will conduct "due diligence" meetings with all relevant County staff and financing team members prior to the issuance of new bonds and notes to review data included in the County's Preliminary Official Statement for accuracy and completeness and to discuss other information that should be considered for inclusion. A Preliminary Official Statement will be released to the market only after the completion of the "due diligence" meeting and approval of the Preliminary Official Statement by the Board.

New Financing Methods and Techniques

Changing federal regulations and the shifting concerns of investors and rating agencies mean that Counties operate in a dynamic financial environment. This Policy is not intended to hinder the County's use of any new financing techniques that may arise. Proposals for financing methods not addressed in this Policy should be addressed to the Deputy CEO. If the Deputy CEO approves of such financing methods, the method should be added to the Policy and brought before the BOS for approval to be added to the Policy.