

MARIN EMERGENCY RADIO AUTHORITY
LOCAL DEBT POLICY
As of: 03-27-2024

A. PURPOSE

The purpose of this Local Debt Policy (this “Policy”) is to establish guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the Marin Emergency Radio Authority.

As used in this Policy, “Authority” shall mean the Marin Emergency Radio Authority. As used in this Policy, “debt” shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

B. BACKGROUND

The Authority is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserves levels and employing prudent practices in governance, management, budget administration and financial reporting.

The Authority prefers to fund projects on a pay-as-you-go basis, to the extent possible.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined thoughtful approach to debt management includes policies that provide guidelines for the Agency to manage its debt program in line with those resources. Therefore, the objective of this policy is to provide written guidelines and restrictions concerning the amount and type of debt and other financing obligations issued by the Authority and the ongoing management of the debt portfolio.

This 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. Adherence to a local debt policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

C. CONDITIONS AND PURPOSES OF DEBT ISSUANCE

1. Acceptable Conditions for the Use of Debt

The Authority believes that prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs of the Authority. Debt will be considered to finance such projects if:

- a) The capital project can be financed with debt not exceeding the term specified in Section E.1. of this Policy, to assure that long-term debt is not issued to finance projects with a short useful life.
- b) It is the most cost-effective funding means available to the Authority, taking into account cash flow needs and other funding alternatives.
- c) It is fiscally prudent and meets the guidelines of this Policy. Any consideration of debt financing shall consider financial alternatives, including pay-as-you-go funding, proceeds derived from capital assets owned by the Authority, and use of existing or future cash reserves, or combinations thereof.

2. Acceptable Uses of Debt and Proceeds of Debt

The primary purpose of debt is to finance one of the following:

- a) The Authority will consider financing for the acquisition, substantial refurbishment, replacement, or expansion of physical assets, including land improvements, for the following purposes:
 - i. Acquisition and or improvement of land, right-of-way or long-term easements.
 - ii. Acquisition of a capital asset with a useful life of 3 or more years.
 - iii. Construction or reconstruction of a facility.
 - iv. Although not the primary purpose of the financing effort, project reimbursables may include project planning, design, engineering and other preconstruction efforts; project-associated furniture fixtures and equipment; capitalized interest, original issue discount, underwriter's discount, and other costs of issuance.
- b) Refunding, refinancing, or restructuring debt, subject to refunding objectives and parameters discussed in Section G.
- c) In the event of temporary shortfalls in cash flow for Authority operation costs due to timing of receipt of revenues and the lack of cash on hand to cover the temporary deficit, the Authority may consider interim or cash

flow financing, such as anticipation notes. In compliance with applicable state law, any such notes shall be payable either (i) not later than the last day of the fiscal year in which it is issued, or (ii) during the fiscal year succeeding the fiscal year in which issued, but in no event later than 15 months after the date of issue, and only if such note is payable only from revenue received or accrued during the fiscal year in which it was issued.

3. Prohibited Uses of Debt and Proceeds of Debt

Prohibited uses of debt include the following:

- a) Financing of operating costs, except for anticipation notes satisfying the criteria set forth in Section C.2.c.
- b) Debt issuance used to address budgetary deficits.
- c) Debt issued for which the term of the debt exceeds the term specified in Section E.1. of this Policy.

4. Internal Control Procedures Concerning Use of Proceeds of Debt

One of the Authority's priorities in the management of debt is to assure that the proceeds of the debt will be directed to the intended use for which the debt has been issued. In furtherance of this priority, the following procedures shall apply:

- a) The Executive Officer shall retain, for the applicable period specified in Section H.4. of this Policy, 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 Executive Officer or the designee of the Executive 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 Executive Officer or the designee of the Executive Officer shall indicate in the record when the change in use was authorized and whether the Governing Board or an Authority official has authorized the change in intended use. If the Executive Officer determines appropriate in consultation with legal counsel (which may be bond counsel, if applicable, or the general counsel to the Authority), the

Executive Officer shall report to the Governing Board apparent deviations from the intended use in debt proceeds.

- 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 Executive Officer shall consult with legal counsel (which may be bond counsel, if applicable, or the general counsel to the Authority) as to available alternatives for the expenditure of the remaining debt proceeds (including prepayment of the debt). After such consultation, the Executive Officer shall seek the direction of the Governing Board as to an alternative for the expenditure or use of such remaining debt proceeds.

D. TYPE OF FINANCING INSTRUMENTS; AFFORDABILITY AND PLANNING POLICIES

The Authority recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of this Policy and the overall portfolio to ensure that any financial product or structure is consistent with the Authority's objectives. Regardless of what financing structure(s) is utilized, due diligence review must be performed for each transaction, including the quantification of potential risks and benefits, and analysis of the impact on Authority creditworthiness and debt affordability and capacity.

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

1. **General Fund-Supported Debt** – General Fund Supported Debt generally include Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) which are lease obligations that are secured by an installment sale or by a lease- back arrangement between the Authority and another public entity. Typically, the Authority appropriates available General Fund moneys to pay the lease payments to the other public entity and, in turn, the public entity uses such lease payments received to pay debt service on the bonds or Certificates of Participation.

General Fund Supported Debt may also include bonds issued to refund obligations imposed by law, such as judgments (judgment obligation bonds (JOBs)).

These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The lessee (Authority) is obligated to include in its Annual Budget and appropriate the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

2. **Revenue Bonds** – Long-term obligations payable solely from specific special fund sources, in general, are not subject to a debt limitation. In determining the affordability of proposed revenue bonds, the Authority will perform an analysis comparing projected annual net revenues (exclusive of depreciation which is a non-cash related expense) to estimated annual debt service. The Authority should strive to maintain a coverage ratio of 110% (or such higher coverage ratio included in the Authority’s existing financing documents), using historical and/or projected net revenues to cover annual debt service for bonds.

E. **STRUCTURE OF DEBT**

1. **Term of Debt** – In keeping with Internal Revenue Service regulations for tax-exempt financing obligations, the weighted average maturity of the debt should not exceed 120 percent of the weighted average economic life of the facilities or projects to be financed, unless specific circumstances exist that would mitigate the extension of time to repay the debt and it would not cause the Authority to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
2. **Rapidity of Debt Payment; Level Payment** – To the extent practical, bonds will be amortized on a level repayment basis, and revenue bonds will be amortized on a level repayment basis considering the forecasted available pledged revenues to achieve the lowest rates possible. Bond repayments should not increase on an annual basis in excess of 2% without a dedicated and supporting revenue funding stream.

Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. Debt will be amortized through the most financially advantageous debt structure and to the extent possible, match the Authority's projected cash flow to the anticipated debt service payments. "Backloading" of debt service will be considered only when one or more of the following occur:

- a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
 - b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
 - c) Such structuring is beneficial to the Authority's aggregate overall debt payment schedule or achieves measurable interest savings.
 - d) Such structuring will allow debt service to more closely match projected revenues.
3. **Serial Bonds, Term Bonds, and Capital Appreciation Bonds** – For each issuance, the Authority will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds (CABs) may be used. The decision to use term, serial, or CAB bonds is driven based on market conditions.
4. **Reserve Funds**–To the extent a reserve fund provides an economic benefit that offsets the cost of funding the reserve fund, as determined by the Executive Officer in consultation with the Authority's municipal advisor and, if applicable, the underwriter for the bonds, the Authority may fund a reserve fund for the proposed bonds, up to the maximum amount permitted by applicable law or regulation. Typically, this amount is equal to the least of (i) maximum annual debt service on the bonds, (ii) 10% of the principal amount of the bonds (or 10% of the sale proceeds of the bonds, within the meaning of Section 148 of the federal Internal Revenue Code), or (iii) 125% of average annual debt service on the bonds.

F. USE OF ALTERNATIVE DEBT INSTRUMENTS

Alternative debt instruments and financing structures 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 the quantification of potential risks and benefits, analysis of the impact on Authority creditworthiness and debt affordability and capacity, and an evaluation of the ability of the Authority to withstand the medium-term or long-term risk attendant to alternative debt instruments, including the feasibility of exit strategies.

1. Variable Rate Debt

Variable rate debt affords the Authority the potential to achieve a lower cost debt depending on market conditions. However, the Authority will seek to limit the use of variable-rate debt due to the potential risks of such instruments.

a) Purpose

The Authority shall consider the use of variable rate debt for the purposes of:

- i. Reducing the costs of debt issues.
- ii. Increasing flexibility for accelerating principal repayment and amortization.
- iii. Enhancing the management of assets and liabilities (matching short-term “priced debt” with the Authority’s short-term investments).

b) Considerations and Limitations on Variable-Rate Debt

The Authority may consider the use of all alternative structures and modes of variable rate debt to the extent permissible under State law and will make determinations among different types of modes of variable rate debt based on cost, benefit, and risk factors. The Executive Officer shall consider the following factors in considering whether to utilize variable rate debt:

- i. With respect to General Fund supported debt, any variable rate debt should not exceed 20% of total Authority General Fund supported debt.
- ii. Any variable rate debt should be fully hedged by expected future capital fund reserves or unrestricted General Fund reserve levels, as applicable.
- iii. Whether interest cost and market conditions (including the shape of the yield curves and relative value considerations) are unfavorable for issuing fixed rate debt.
- iv. The likelihood of projected debt service savings when comparing the cost of fixed rate bonds.
- v. Costs, implementation and administration are quantified and considered.

- vi. Cost and availability of liquidity facilities (lines of credit necessary for variable rate debt obligations and commercial paper in the event that the bonds are not successfully remarketed) are quantified and considered.
- vii. Whether the ability to convert debt to another mode (daily, monthly, fixed) or redeem at par at any time is permitted.
- viii. Cost and availability of derivative products to hedge interest rate risk.
- ix. The findings of a thorough risk management assessment.

c) Risk Management

Any issuance of variable rate debt shall require a rigorous risk assessment, including, but not limited to factors discussed in this section. Variable rate debt subjects the Authority to additional financial risks (relative to fixed rate bonds), including interest rate risk, tax risk, and certain risks related to providing liquidity for certain types of variable rate debt.

The Authority will properly manage the risks as follows:

- i. ***Interest Rate Risk and Tax Risk*** – The risk that market interest rates increase on variable-rate debt because of market conditions, changes in taxation of municipal bond interest, or reductions in tax rates. Mitigation – Limit total variable rate exposure per the defined limits, match the variable rate liabilities with short term assets, and/or purchase appropriate derivative products to hedge against the risk (see also Section F.2 below).
- ii. ***Liquidity/Remarketing Risk*** – The risk that holders of variable rate bonds exercise their “put” option, tender their bonds, and the bonds cannot be remarketed requiring the bond liquidity facility provider to repurchase the bonds. This will result in the Authority paying a higher rate of interest to the facility provider and the potential rapid amortization of the repurchased bonds. Mitigation - Limit total direct variable-rate exposure. Seek liquidity facilities which allow for longer (5-10 years) amortization of any draws on the facility. Endeavor to secure credit support facilities that result in bond ratings of the highest short-term ratings and long-term ratings not less than AA. If the Authority’s bonds are downgraded below these levels (or such other rating levels as provided in the applicable financing documents) as a result of the facility provider’s ratings, a replacement provider shall be sought.
- iii. ***Liquidity/Rollover Risk*** – The risk that arises due to the shorter term of most liquidity provider agreements (1-5 years) relative to

the longer-term amortization schedule of the Authority's variable-rate bonds. Liquidity and rollover risk includes the following risks: (1) the Authority may incur higher renewal fees when renewal agreements are negotiated, and (2) the liquidity bank market may constrict such that it is difficult to secure third party liquidity at any interest rate. Mitigation – Negotiate longer terms on provider contracts to minimize the number of rollovers.

G. REFUNDING GUIDELINES

The Executive Officer shall monitor at least annually all outstanding Authority debt obligations for potential refinancing opportunities. The Authority will consider refinancing of outstanding debt to achieve annual savings or to refinance a bullet payment or spike in debt service. Except for instances in which a bullet payment or spike in debt service is being refinanced, absent a compelling reason or financial benefit to the Authority, any refinancing should not result in an increase to the weighted average life of the refinanced debt.

Except for instances in which a bullet payment or spike in debt service is being refinanced, the Authority will generally seek to achieve debt service savings which, on a net present value basis, are at least 3% of the debt being refinanced. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future. Refundings which produce a net present value savings of less than 3% will be considered on a case-by-case basis.

H. MARKET COMMUNICATION, ADMINISTRATION, AND REPORTING

- 1. Rating Agency Relations and Annual or Ongoing Surveillance** – The Executive Officer shall be responsible for maintaining the Authority's relationships with S&P Global Ratings, Fitch Ratings and Moody's Investor's Service. The Authority is committed to maintaining its existing rating levels. In addition to general communication, the Executive Officer shall:
 - a) Ensure the rating agencies are provided updated financial statements of the Authority as they become publicly available.
 - b) Communicate with credit analysts at each agency at least once each year, or as may be requested by the agencies.
 - c) Prior to each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the Authority's financial position, including the impacts of the proposed debt issuance.
- 2. Governing Board Communication** – The Executive Officer should report feedback from rating agencies, when and if available, regarding the Authority's financial strengths and weaknesses and areas of concern relating to weaknesses as they pertain to maintaining the Authority's existing credit ratings.

3. **Continuing Disclosure Compliance** – The Authority shall remain in compliance with Rule 15c2-12, promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, by filing (to the extent required by the applicable continuing disclosure undertaking) its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year, or by such other annual deadline required in any continuing disclosure agreement or certificate for any debt issue. The Authority shall maintain a log or file evidencing that all continuing disclosure filings have been made promptly.
4. **Debt Issue Record-Keeping** – A copy of all debt-related records shall be retained at the Authority’s offices. At minimum, these records shall include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each Authority financing (to the extent available).

Such records shall be retained while any bonds of an issue are outstanding and during the three-year period following the final maturity or redemption of the bond issue or, if later, while any bonds that refund bonds of that original issue are outstanding and for the three year period following the final maturity or redemption date of the latest refunding bond issue.

5. **Arbitrage Rebate** – The use of bond proceeds and their investments must be monitored to ensure compliance with all arbitrage rebate requirements of the Internal Revenue Code and related Internal Revenue Service regulations, in keeping with the covenants of the Authority and/or related entity in the tax certificate for any federally tax-exempt financing. The Executive Officer shall ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

I. CREDIT RATINGS

The Authority 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.

J. SB 1029 COMPLIANCE

Senate Bill 1029, signed by Governor Brown on September 12, 2016 and enacted as Chapter 307, Statutes of 2016, requires issuers to adopt debt policies addressing each of the five items below:

1. *The purposes for which the debt proceeds may be used.*

Section C.2 (Acceptable Uses of Debt and Proceeds of Debt) and Section C.3 (Prohibited Use of Debt and Proceeds of Debt) address the purposes for which debt proceeds may be used.

2. *The types of debt that may be issued.*

Section D (Types of Financing Instruments; Affordable and Planning Policies), Section E (Structure of Debt) and Section F (Use of Alternative Debt Instruments) provide information regarding the types of debt that may be issued.

3. *The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.*

Section C.1 (Acceptable Conditions for the Use of Debt) provides information regarding the relationship between the Authority's debt and its capital needs.

4. *Policy goals related to the issuer's planning goals and objectives.*

As described in Section B (Background), Section D (Types of Financing Instruments; Affordable and Planning Policies), and other sections, this Policy has been adopted to assist with the Authority's goal of maintaining fiscal sustainability and financial prudence.

5. *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.*

Section 4 (Internal Control Procedures Concerning Use of Proceeds of Debt) provides information regarding the Authority's internal control procedures designed to ensure that the proceeds of its debt issues are spent as intended.