

SAN JUAN COUNTY PUBLIC HOSPITAL DISTRICT #2  
LOPEZ ISLAND HOSPITAL DISTRICT  
(LIHD)



**DEBT POLICY**

**ADOPTED**  
2.22.2018

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## Section I. Introduction

### Purpose and Overview

The Debt Policy for San Juan County Public Hospital District #2, hereby referred to as LIHD, is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the District. The Debt Policy is separate yet integrated through reference with the District Financial Management Policy and the District Budget Policy.

Adherence to the Debt Policy is essential to ensure that the District:

1. Maintains a sound debt position;
2. Protects the credit quality of its obligations and achieves the highest practical credit rating;
3. Minimizes borrowing cost and maintains access to cost effective borrowing;
4. Maintains complete financial disclosure reporting;
5. Ensures compliance with applicable local, state and federal laws; and
6. Employs the use of debt to compliment, but not fully replace, significant commitments for capital purposes.

## Section II. Governing Principles

In the issuance and management of debt, the LIHD 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.

### Governing Law

**State Law** - The LIHD may contract indebtedness as provided for by chapter 70.44 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. Bonds evidencing indebtedness shall be issued and sold in accordance with chapter 39.46.

**Federal Laws, Rules and Regulations** - The LIHD shall issue and manage debt in accordance with limitations and constraints imposed by federal rules and regulations, including the Internal Revenue Code of 1986, as amended (the "Code"); the Treasury Department regulations thereunder; and the Securities Act of 1933 and Securities Exchange Act of 1934 and applicable Securities and Exchange Commission regulations thereunder.

### Permitted Debt by Type

Subject to changes in state laws, the LIHD may legally issue debt using only the debt instruments described below:

**General Obligation (GO) Bonds** - RCW 70.44.060(5)(b) authorizes the LIHD to issue general obligation bonds, in accordance with chapter 39.46 RCW. 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 LIHD 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.

General obligation bonds shall mature in not to exceed thirty years. The incurring of such indebtedness shall be subject to the applicable limitations and requirements provided in section 1, chapter 143, Laws of 1917, as last amended by section 4, chapter 107, Laws of 1967, and RCW [39.36.020](#), as now or hereafter amended. Such general obligation bonds shall be issued and sold in accordance with chapter [39.46](#) RCW, and the LIHD shall notify the County Treasurer at least thirty days in advance of authorizing the issuance of bonds or the incurrence of other certificates of indebtedness.

There are two basic kinds of GO bonds;

1. **Unlimited tax general obligation bonds(UTGO):** Voted debt in excess of the LIHD levy and may only be used for capital purposes as described in RCW 70.44.007(1) and RCW 7044.110. With a vote, total indebtedness may not exceed 2.5% of the value of the taxable property within LIHD.
2. **Limited tax general obligation bonds (LTGO):** Non-voted debt may be used for any LIHD purpose. LTGO may be passed by a vote of the LIHD Board of Commissioners. General fund revenues must be pledged to pay the debt service on LTGO bonds. Non-voted debt is limited to .75% of the value of the taxable property within LIHD.

**Revenue Bonds** - RCW 70.44.060(5)(a) authorizes the LIHD to issue revenue bonds for District purposes. Revenue bonds must be paid solely from revenues of the District or its facilities. The LIHD can issue Revenue bonds without voter approval. RCW 35.41 governs issuance of Revenue bonds.

**Refunding Bonds** - RCW 39.53 authorizes the LIHD Commissioners to issue bonds to replace and refinance outstanding general obligation bonds. They are payable from the same source as the initial bonds. These bonds are issued either when an outstanding bond is in arrears and insufficient funds are available or when it is deemed in the LIHD's best interest to modify the debt. Such bonds may be issued in excess or less than the initial bond.

**Warrants** - The LIHD is authorized by RCW 70.44.060(5), (6) to issue two types of warrants for purposes of short-term borrowing: *revenue warrants* and *tax anticipation warrants*. These warrants are used to raise temporary cash to bridge the gap between the time that expenditure has to be made and time when revenues are received.

1. **Revenue Warrants** - similar to Revenue bonds, covered by the same RCW and rules.
2. **Tax Anticipation Warrants** - issued in anticipation of property tax revenues. They may be issued in an amount not to exceed the anticipated tax revenues of one year, and are payable from the first tax monies available from the levy of property taxes when collected, per RCW 70.44.060(6).

**Short-term Obligations** - The LIHD may borrow money and issue short-term obligations pursuant to chapter RCW 39.50. The proceeds of such obligations may be used for any lawful purpose. Short-term obligations may be issued in anticipation of the receipt of revenues, taxes or grants. Short term obligations, payable from taxes, will count toward LIHD's debt limit. Such obligations do not require voter approval but tax anticipation notes, but if they are payable from taxes, must be paid off no later than June 30 following the year in which they were issued, per RCW 39.50.030(1).

**Lines of Credit** - RCW 39.46.050 authorizes the LIHD to issue bonds to establish lines of credit with any qualified public depository to be drawn upon in exchange for its bonds or other obligations. If a line of credit is a general obligation (not a revenue obligation), it counts against the debt limit.

### **Purpose for Borrowing**

The LIHD shall issue short and long-term debt solely for the purpose of financing or refinancing the cost of design, acquisition and/or implementation of island-appropriate healthcare services, as outlined in a Community Needs Assessment, or to refund outstanding debt.

### **Limitations on Debt Issuance**

**Legal Debt Limits** - General obligation debt 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); and
2. **2.5% of the value** of the taxable property, for total outstanding general obligation debt, including non-voted 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 and Washington Constitution, Article VII, Section 2(b).

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

### **Ethical Standards Governing Conduct**

The LIHD will adhere to standards of conduct as stipulated by the following:

1. Applicable federal laws, rules and regulations;
2. Public Disclosure Act, chapter 42.17 RCW; and
3. Ethics in Public Service Act, chapter 42.52 RCW.

## **Section III. Roles and Responsibilities**

**Legislative Authority** - The LIHD Board of Commissioners shall authorize and approve the incurrence of indebtedness by resolution.

**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 use the District's Financial Management Policy, Budget Policy and Debt Policy and shall:

- ✓ Provide for the issuance of debt at the lowest possible cost and risk;
- ✓ Determine the available debt capacity;
- ✓ Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- ✓ Recommend to the Board of Commissioners the manner of sale of debt;
- ✓ Monitor opportunities to refund debt and recommend such refunding as appropriate;
- ✓ Comply with all Internal Revenue Service (IRS), Securities and Exchange Commission (SEC) regulations governing the issuance of debt;
- ✓ Provide for the timely payment of principal of and interest on all debt; ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
- ✓ Provide for and participate in the preparation and review of offering & disclosure documents;
- ✓ Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
- ✓ Submit to the Board of Commissioners all recommendations to issue debt;
- ✓ Provide for the distribution of pertinent information to rating agencies;
- ✓ Maintain a current database with all outstanding debt; and
- ✓ Apply and promote prudent fiscal practices.

## Section IV. Professional Services

### Professional Services

The LIHD shall procure professional services as required to execute financing transactions and to advise on non-transaction related work.

**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 LIHD shall be accompanied by a written opinion by legal counsel affirming that the LIHD is authorized to issue the proposed debt, that the LIHD 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 nationally recognized legal firm with 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 LIHD financing programs, including advising the LIHD on compliance with regulatory requirements.

The scope of services may include, but not be limited to, the following:

- A) Services for Issuance and Delivery of Bonds:
- a. **Render Legal Opinion(s).** The Bond Counsel will render the bond counsel opinion regarding the validity and binding effect of the bonds, the source of payment and security for the bonds, and the excludability of interest on the bonds from gross income for federal income tax purposes.
  - b. **Prepare and Review Documents.** The Bond Counsel will prepare and review the documents necessary or appropriate to the authorization, issuance, sale, and delivery of the bonds, coordination of the authorization and execution of these documents -- including authorizing and awarding Resolutions.
  - c. **Review Legal Structure of the Bonds.** The Bond Counsel will review all legal issues relating to the structure of the bonds.
  - d. **Prepare or Review Offering Document(s).** The Bond Counsel will prepare or review those sections of the offering document(s) to be disseminated in connection with the sale of the bonds that relate to the bonds, financing documents, bond counsel opinion, tax exemption, and the continuing disclosure undertaking of the Issuer.

- e. **Assist with Presentations.** The Bond Counsel will assist, as necessary, the Issuer in presenting information to a) bond rating organizations, b) investors, and, where appropriate, c) other municipal market participants, relating to legal issues affecting the issuance of the bonds.
  - f. **Participate in Meetings.** The Bond Counsel will participate in meetings, as requested, relating to legal issues affecting the issuance of the bonds, including, but not limited to a) Commissioners meetings, b) due diligence meetings, and c) sale of bonds.
  - g. **Review or Prepare Contracts.** The Bond Counsel will review or prepare contracts, as necessary, if any, including: a) bond purchase contracts, b) liquidity facility agreements, c) remarketing agreements, and d) investment and trust agreements, relating to legal issues affecting the issuance of the bonds. The bond counsel will review, as necessary, other documents, relating to legal issues affecting the issuance of the bonds.
  - h. **Prepare Official Transcript.** The Bond Counsel will prepare bound official transcripts of the proceedings of the financing, including all documentation relating to the authorization, offering, sale and delivery of the issue.
  - i. **Assist in Other Legal Matters.** The Bond Counsel will assist the Issuer with other legal matters relating to issuance of the bonds that may be identified during a transaction, including investment of proceeds and reserves and compliance with federal arbitrage regulations.
- B) On-Going Legal Services:
- a. **Tax Advice.** The Bond Counsel will provide continuing advice regarding any actions necessary to ensure that interest will continue to be tax-exempt.
  - b. **Regulatory Efforts.** The Bond Counsel will track and inform the LIHD of proposed efforts and rulings issued by federal regulatory agencies, including, but not limited to, IRS, SEC, and MSRB, that may impact the issuance of bonds.
  - c. **Continuing Disclosure.** The Bond Counsel will advise the LIHD in planning for the continuing disclosure efforts and in preparing continuing disclosure documents.
  - d. **Request for Proposals.** The Bond Counsel will assist with the preparation and evaluation of RFPs for financial services, relating to legal issues affecting the issuance of bonds.
  - e. **Additional Legal Services.**

The Superintendent shall submit a recommendation for the appointment of Bond Counsel(s). 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(s).

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

Other Professionals. LIHD may utilize the services of a municipal financial advisor or placement agent. Bonds may be sold by private placement, e.g., to a bank or, depending on the size of the transaction, through an underwriting process. The financing method will be determined on a case by case basis.

## Section V. Transaction-Specific Policies

### Debt Structural Elements

**Maturity** - The LIHD shall issue debt with an average maturity that is not longer than the weighted average reasonably expected economic life of the assets being financed.

**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.

**Coupon Type** - Unless otherwise justified, long-term debt will be sold with maturities paying interest on a periodic basis.

**Redemption Features** - For each transaction, the LIHD shall evaluate the costs and benefits of call provisions.

**Tax-exemption** - Unless otherwise required by federal tax law, the LIHD shall issue its debt on a tax-exempt basis.

## Section VI. Compliance Policies

### Issuance and Post-Issuance Tax Compliance Policies and Procedures

The LIHD, in consultation with its Bond Counsel and other members of the Finance Committee, as appropriate, shall adopt comprehensive compliance policies and procedures to ensure that the LIHD 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.

**Arbitrage Liability Management**

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

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

**Section VII. Other Policies****Debt Database Management**

The LIHD shall maintain complete information on its outstanding debt portfolio, in a database format. The information in the database shall include, but not be limited to, the following:

- ✓ Issue Name
- ✓ Initial Par Amount of the Issue
- ✓ Dated Date and Sale Date of the Issue
- ✓ Purpose of the Issue
- ✓ Security Type (Fixed or Variable) of the Issue
- ✓ Issue Type (New Money or Refunding) of the Issue
- ✓ Sale type (Competitive or Negotiated) of the Issue
- ✓ TIC, Arbitrage Yield, Avg. Life, and Underwriters Discount of the Issue
- ✓ Underwriter(s) of the Issue
- ✓ Principal Amounts by Maturity and Principal Amounts Outstanding by Maturity
- ✓ Coupon Rate and Coupon Type (Current Interest or Zeros) by Maturity
- ✓ Original Yield and Original Price by Maturity
- ✓ Interest Payment Frequency by Maturity
- ✓ First Interest Payment Date by Maturity
- ✓ Call Provisions & Sinking Provisions by Maturity
- ✓ Credit Enhancement, if any, by Maturity

The LIHD shall use the debt database for the following purposes:

1. Generate reports;
2. Refunding Analyses; and
3. Output to Accounting System.

**Accounting for the Issuance of Debt**

The LIHD 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.

**Evaluating the Impact of Capital Program Spending**

The LIHD shall evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition.

**Debt Policy Review**

The LIHD shall review and update its debt policy, as necessary – but not less than once every four (4) years.