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This Debt Management Policy (this “Policy”) provides written guidelines for the issuance of indebtedness by the Grossmont Healthcare District (the “District”) in satisfaction of the requirements of S.B. 1029, codified as part of Government Code Section 8855.

ARTICLE I

PURPOSES AND GOALS


The purpose of this Policy is to provide a functional tool for debt management and capital planning by the District. In following this Policy, the District shall pursue the following goals:

- (a) Identifying the purposes for which the debt proceeds may be used.
- (b) Identifying the types of debt that may be issued.
- (c) Managing the relationship of the debt to, and integration with, the District’s capital improvement program or budget, as applicable.
- (d) Establishing policy goals related to the District’s planning goals and objectives.
- (e) Implementing internal control procedures to ensure that the proceeds of proposed debt issuance will be directed to the intended use upon issuance.

ARTICLE II

PURPOSES FOR WHICH DEBT PROCEEDS MAY BE USED

The laws of the State of California (the “State”) authorize the District to incur debt, make lease payments, contract debt, borrow money, and issue bonds for improvement projects. Under these provisions, the District may contract debt to pay for the cost of acquiring, maintaining, constructing, reconstructing, rehabilitating, replacing, improving, extending, enlarging, and equipping such projects; to refund existing debt; or to provide for cash flow needs.

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ARTICLE III

TYPES OF DEBT THAT MAY BE ISSUED AND DEBT STRUCTURE

Section 3.01. Types of Debt Authorized to be Issued.

(a) *Short-Term:* The District may issue fixed-rate and/or variable rate short-term debt, which may include tax and revenue anticipation notes (“TRANS”), when such instruments allow the District to meet its cash flow requirements, and lease financings for shorter-term acquisitions, such as equipment, or interim funding for capital costs, that will ultimately be replaced with longer-term lease financings.


(b) *Long-Term:* The District may issue fixed-rate and/or variable rate long-term debt to finance capital facilities, projects and certain equipment where it is appropriate to spread the cost of the projects over more than one budget year. Long-term debt should not be used to fund District operations.

The District may also enter into long-term lease financings, including causing the execution and delivery of certificates of participation (“COPs”) or the issuance of lease revenue bonds (“LRBs”), for public facilities, property and equipment.

Section 3.02. Debt Limitation. Section 18 of Article XVI of the State Constitution contains the constitutional “debt limitation” formula applicable to the District. Health and Safety Code Section 32308 limits the District’s total outstanding bonded debt (i.e., the principal portion only) to 2.5% of the assessed valuation of the taxable property of the District. Thus, Section 32308 of the Health and Safety Code limits the issuance of new debt when the District has total bonded indebtedness in excess of 2.5% of the assessed valuation in the District.

Section 3.03. Structure of Debt Issues.

(a) *Maturity of Debt:* The duration of a debt issue shall be consistent, to the extent possible, with the economic or useful life of the improvement or asset that the issue is financing. Accordingly, the District shall structure the maturity of debt in compliance with Section 147(b) of the Internal Revenue Code (or any successor thereto). In addition, the District shall consider the overall impact of the current and future debt burden of a financing when determining the duration of the debt issue. All debt incurred

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by the District shall mature within the limits set forth in applicable provisions of State law.

(b) *Debt Sizing:*

(i) New Money Bond Issuances: For new money debt, the District shall size the debt consistent with the “spend-down” requirements of the Internal Revenue Code and within any State law or voter approval limitations. To the extent possible, the District will also consider credit issues, market factors and tax law when sizing the District’s bond issuance.

(ii) Refunding Bond Issuances: The sizing of refunding debt will be determined by the amount of proceeds required to cover the principal of and accrued or accreted interest (if any) on the debt to be refunded or, in the case of crossover refundings, the refunding debt, as appropriate, and the redemption or prepayment premium, if any, for the debt to be refunded, and to cover appropriate financing costs.


(c) *Schedule and Repayment Structure:* The District shall design the financing schedule and repayment of debt so as to take best advantage of market conditions, provide flexibility and meet budgetary goals, and, as practical, to recapture or maximize the District’s debt capacity for future use.

ARTICLE IV

**RELATIONSHIP OF DEBT TO AND INTEGRATION WITH
DISTRICT’S CAPITAL IMPROVEMENT PROGRAM OR BUDGET**

Section 4.01. Impact on Operating Budget and District Debt Burden.

(a) *General:* When considering any debt issuance, the potential impact of debt service and additional operating costs associated with new projects on the operating budget of the District, both short and long-term, will be evaluated. The cost of debt issued for major capital repairs or replacements may be judged against the potential cost of delaying such repairs.

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(b) *Debt Issued to Finance Operating Costs:* The District may deem it necessary to finance cash flow requirements under certain conditions. Such cash flow borrowing must be payable from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the debt is issued. General operating costs include, but are not limited to, those items normally funded in the District’s annual operating budget. The District’s Chief Executive Officer (“Chief Executive Officer”), or designee, will review potential financing methods to determine which method is most prudent for the District. Potential financing sources include TRANs and internal temporary inter-fund borrowing. In analyzing the impact on District cost, the Chief Executive Officer, or designee, will consider the lost interest earnings for the District funds providing temporary borrowing capacity.

(c) *Voter-Approved Obligations:* A significant portion of the District’s capital projects are projected to be funded by general obligation bonds (“GO Bond”). Projects financed by the GO Bonds will be determined by the constraints of applicable law and the project list approved by voters.

(d) *Lease Obligations:* Lease obligations are an appropriate means of financing capital equipment and certain capital facilities and projects. However, lease obligations are most likely to impact budget flexibility. Therefore, the potential impact of debt service on the operating budget of the District will be evaluated carefully.

(e) *Use of Special Financing Structures:* The District may use special financing structures authorized by State and federal law if they are determined to result in sufficiently lower financing costs versus traditional tax-exempt bonds and/or COPs/LRBs, or provide other significant benefits, that offset any additional administrative and compliance costs and risks.

Section 4.02. Capital Improvement Program. The Chief Executive Officer, or designee, and the facilities staff have responsibility for the planning and management of the District’s capital improvement program subject to review and approval by the Board of Directors. Staff will, as appropriate, supplement and revise any applicable District facilities plan(s) in keeping with the District’s current needs for the acquisition, development and/or improvement of District’s real estate and facilities. Such plans may include a summary of the estimated cost of each project, schedules for the

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projects, the expected quarterly cash requirements, and annual appropriations, in order for the projects to be completed.

Section 4.03. Refunding and Restructuring Policy.

(a) *District’s Best Interest:* Whenever deemed to be in the best interest of the District, the District shall consider refunding or restructuring outstanding debt if it will be financially advantageous or beneficial for debt repayment and/or structuring flexibility.

(b) *Net Present Value Analysis:* The Chief Executive Officer, or designee, shall review a net present value analysis of any proposed refunding in order to make a determination regarding the cost-effectiveness of the proposed refunding.

(c) *Maximization of Expected Net Savings:* Another consideration in deciding which debt to refinance and the timing of the refinancing shall be the maximization of the District’s expected net savings over the life of the bonds.

(d) *Comply with Existing Legal Requirements:* The refunding of any existing debt shall comply with all applicable State and federal laws governing such issuance.

ARTICLE V


POLICY GOALS RELATED TO DISTRICT’S PLANNING GOALS AND OBJECTIVES

In following this Policy, the District shall pursue the following goals:

(a) The District shall strive to fund capital improvements from voter-approved GO Bond issues to preserve the availability of its General Fund for District operating purposes and other purposes that cannot be funded by such bond issues.

(b) The District shall endeavor to attain the best possible credit rating for each debt issue in order to reduce interest costs, within the context of preserving financial flexibility and meeting capital funding requirements.

(c) The District shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.

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(d) The District shall, with respect to GO Bonds, remain mindful of its statutory debt limit in relation to assessed value growth within the District and the tax burden needed to meet long-term capital requirements.

(e) The District shall consider market conditions and District cash flows when timing the issuance of debt.

(f) The District shall determine the amortization (maturity) schedule which will fit best within the overall debt structure of the District at the time the new debt is issued.

(g) The District shall match the term of the issue to the useful lives of assets funded by that issue whenever practicable and economic, while considering repair and replacement costs of those assets to be incurred in future.

(h) The District shall, when planning for the issuance of new debt, consider the impact of such new debt on the debt of local, state and other governments that overlap with the District.

(i) The District shall, when issuing debt, assess financial alternatives to include new and innovative financing approaches, including whenever feasible, grants, revolving loans or other State/federal aid, so as to minimize the encroachment on the District's General Fund.


(j) The District shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

ARTICLE VI

**INTERNAL CONTROL PROCEDURES FOR ISSUANCE OF DEBT
TO ENSURE INTENDED USE OF PROCEEDS**

Section 6.01. Use of Proceeds.

(a) *General:* The District shall be vigilant in using debt proceeds in accordance with the debt's stated purposes at the time such debt was incurred.

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(b) *GO Bond Proceeds:* In furtherance of the policy, and in connection with the issuance of all GO Bonds:


(i) As required by State law, the District shall only use GO Bond proceeds for the purposes approved by the District’s voters.

(ii) The Chief Executive Officer, or designee, shall have the responsibility, no less often than annually, to provide to the District’s Board of Directors a written report stating (1) the amount of bond proceeds received and expended in that year, and (2) the status of any project funded or to be funded from bond proceeds. These reports may be combined with other periodic reports which include the same information, including but not limited to, periodic reports made to the California Debt and Investment Advisory Commission, or continuing disclosure reports or other reports made in connection with the GO Bonds. These requirements shall apply only until all authorized GO Bonds have been issued and all proceeds of the GO Bonds, or any investment earnings thereon, are fully expended.

(c) *Expenditure of Proceeds of Debt:* Written requisitions identifying the amount and purpose of a proposed draw of bond or other debt proceeds shall be signed by a District official and submitted to the appropriate trustee, as applicable.

Section 6.02. Compliance with Federal Tax Laws. The District shall have a policy of full compliance with all applicable federal tax law requirements. In connection with prior and new debt issues, the Chief Executive Officer, **or designee**, shall review applicable federal tax requirements, including requirements relating to arbitrage and rebate compliance.

Section 6.03. Continuing Disclosure. The District may have undertaken, and may undertake in the future, obligations for continuing disclosure pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (“Rule 15c2-12”). The Chief Executive Officer, **or designee**, will periodically review the requirements of Rule 15c2-12 and each of the District’s undertakings, and ensure that annual and other periodic filings which may be required are carried out in a complete and timely manner.

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ARTICLE VII

MISCELLANEOUS

Section 7.01. Exceptions and Modifications. The District acknowledges that the capital marketplace fluctuates, municipal finance products change from time to time, and that issuer and investor supply and demand vary. These fluctuations may produce situations that are not anticipated or covered by this policy. As such, the Board of Directors may make exceptions or modifications to this policy to achieve the debt management goals outlined above. Management flexibility is appropriate and necessary in such situations, provided specific authorization is granted by the Board of Directors.

Section 7.02. Policy Development. The Chief Executive Officer, or designee, may develop additional specific elements of a debt management framework through rules and regulations which, along with this policy, shall be reviewed periodically in consideration of changing laws, District needs and market conditions.