DEBT MANAGEMENT POLICY

Policy Introduction:

This policy documents the District's goals for the use of debt instruments and provides guidelines for the use of debt for financing the District infrastructure and project needs. The District's overriding goal in issuing debt is to respond to and provide for the infrastructure and capital project needs of its customers while ensuring that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The District issues debt instruments, administers District-held debt proceeds and makes debt service payments, acting with prudence, diligence, and attention to prevailing economic conditions.

The District will endeavor to pay for all infrastructure and other projects from a combination of current revenues, available reserves, and prudently issued debt. The District believes that debt can provide an equitable means of financing projects for the District's customers and provide access to new capital needed for infrastructure and project needs. Debt will be used to finance projects if it (i) meets the District's goal of equitable treatment of all customers, both current and future, (ii) is the most cost-effective means available to the District, and (iii) is fiscally prudent, responsible, and diligent under the prevailing economic conditions.

Purpose:

The Big Bear City Community Services District (District) Debt Management Policy sets forth debt management objectives for the District, establishes overall parameters for issuing and administering the debt portfolio, and provides policy guidelines to decision makers.

Prior to issuing debt, the District will evaluate the availability of grants and low interest loans.

Scope:

The Debt Management Policy guides and governs debt issuance and administrative activities associated with debt.

Policy Statement:

A. Financing Methodology

1. Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities or equipment when it is appropriate to spread the financing over more than one year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be capitalized. Long-term borrowing shall not be used to fund operating costs.

2. Short-term Borrowing

Short-term borrowing, having a maturity of one year or less, may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs. It may be used to fund operating costs when issued and retired in the same fiscal year.

3. Debt Capacity

The District will keep outstanding debt within the practical limits of the District's debt rating (if available), debt service coverage ratio constraints and any other applicable law. The District's policy is to limit total debt outstanding to four times total annual operating expenses. This will limit the magnitude of fixed expenses attributable to debt.

4. Debt Service Coverage

The District shall maintain strict compliance with covenants regarding coverage of annual debt service by net revenues embodied in the terms of debt instruments. In addition, the District intends to maintain an average debt service coverage ratio of 130% or above. This will support strong bond credit ratings and provide annual revenues to fund capital improvements.

5. Intergenerational Concerns

The District will review debt issuance in light of the balance between funding capital improvements from current revenue and from long-term debt and the impact each debt financing has relative to intergenerational benefits.

6. Credit Quality

Except for certain instruments, the District will not incur obligations that do not carry investment grade ratings (i.e. credit ratings below Baa3/BBB-/BBB- from Moody's Investors Service, S&P Global and Fitch Ratings, respectively). However, certain instruments, such as state loans or private placements, may not be rated.

Credit ratings may be obtained from Moody's, S&P, Fitch, or other nationally recognized rating agencies. The District, when beneficial, will request additional ratings for long-term obligations that are publicly sold, whereas private placements may not require ratings.

7. Method of Sale

The Board of Directors, or its designee, shall be responsible for determining the appropriate way to offer any securities to investors and the most effective method of sale will be decided on a case by case basis.

8. Maturity

The District shall issue debt with an average life less than or equal to the average life of the assets being financed. The final maturity of the debt should be no longer than 40 years. Factors to be considered when determining the final maturity of debt include: the average life of the assets being financed, relative level of interest rates, and the year-to-year differential in interest rates.

9. Maturity Structure

The District's long-term debt may include serial and term bonds. Serial bonds have sequential maturity dates scheduled at regular intervals. Term bonds have a long-term maturity date, and single coupon are redeemed in specified increments at set time intervals. Other maturity structures may also be considered which can be demonstrated to be consistent with the objectives of the District's Debt Management Policy.

10. Credit Enhancement

The District shall procure credit enhancement for a sale of bonds if the General Manager determines that it is cost effective to do so. Credit enhancement may be bond insurance or bank letters of credit.

11. Senior/Subordinate Lien

The District may utilize a senior/subordinate lien structure. The choice of lien will be determined based on such factors as overall cost of debt, impact on debt service, impact on user charge rates, marketing considerations and previous issuance bond documents. Senior debt has priority over subordinate debt. Subordinated debt is payable each year only after other debts with a higher claim have been satisfied.

12. Redemption Features & Refunding Policy

To preserve flexibility and refinancing opportunities, the District debt will generally be issued with call provisions which enable the District to retire the debt earlier or enable the refunding of the debt prior to maturity. The District may consider calls that are shorter than traditionally offered in the market and/or non-call debt when warranted by market conditions and opportunities. For each transaction, the District will evaluate the efficiency of call provision alternatives.

13. Coupon Structure

Debt may include par, discount, premium and capital appreciation bonds. In general, the District will avoid the sale of non-callable, long-term fixed rate bonds. Discount, premium and capital appreciation bonds must be demonstrated to be advantageous relative to par bond structures. Debt issued at par means it is sold at its face value. Debt issued at discount means that the selling price is less than face value, or at a discount. Debt issued at a premium means it is sold at an amount higher than the face value. Capital appreciation bonds increase in value over the life of the bond.

B. Communication and Disclosure

1. Rating Agencies

If rated, the District shall maintain its strong ratings through prudent fiscal management and consistent communications with the rating analysts. The General Manager shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information.

2. Bond Insurers

The General Manager shall manage relationships with the analyst at the bond insurers assigned to the District's credit, if any.

3. Disclosure Procedures

The District shall comply with SEC regulations on disclosure, which require municipal debt issuers to provide specified financial and operating information at the time of new bond issuance (Official Statement) and during the life of the bonds (Continuing Disclosure Annual Report).

4. Trustee

The General Manager shall procure the services of a Trustee for the creation and maintenance of District debt related funds dictated by bond documents.

C. Debt Administration

1. Investment of Bond Proceeds

Investment of bond proceeds shall be consistent with federal tax requirements and with requirements contained in the governing bond documents.

2. Record Retention and Disbursement of Bond Proceeds

The District's record retention policy for bonds is permanent.

<u>Frequency of Reimbursement/Claims Preparation</u>

The preparation of reimbursement claims must be coordinated through the District's Finance Department to the appropriate level of funding from bond proceeds versus District operating reserves. The review of reimbursement requirements may be performed on a quarterly basis to assess the appropriate amount and timing of reimbursement claims.

<u>Reimbursement Period</u>

In general, the reimbursement allocation is made not later than 18 months after the later of:

a. The date the original expenditure is paid; or
b. The date the project is placed in service or abandoned, but in no event more than 3 years after the original expenditure is paid.

3. Arbitrage Compliance

The Finance Department shall obtain a qualified firm to perform Arbitrage Rebate Calculations for all District bond issuances and prepare reports and necessary filing documents as necessary. Ninety percent (90%) of the Cumulative Rebate Liability (reduced by any applicable computation date credits) is required to be rebated to the United States Internal Revenue Service (IRS) no later than 60 days after the end of each fifth Bond/COP Year. Additionally, should the Bonds/COPs be retired on or prior to final maturity, 100% of the Cumulative Rebate Liability (reduced by any applicable computation date credits) as of such retirement date will become due and payable within 60 days.

4. Debt Service

The District shall fully budget all debt service obligations of the District annually. Utilizing the services of the Trustee, the District will make all debt service payments per the bond document schedule and shall not in any circumstance make the payment late.