EXHIBIT 13 – JOINT DEBT ISSUANCE POLICY

Mid-Western Placer Regional Sewer Project Facilities
Joint Debt Issuance Policy
As of September 20, 2013

Purpose of Policies

This Joint Debt Issuance Policy has two main objectives:

- Provide guidance for managing the long range capital needs of the Regional Facilities
- Establish common public finance policies and procedures for the Parties

This policy only applies to joint debt of the Parties.

Advisory Committee

An Advisory Committee shall be formed for the purpose of carrying out the guidance set forth in the Public Finance Policies and Procedures.

- Activities: The Advisory Committee will serve as a non-binding forum for reviewing all aspects of proposed financing, including legal, financial, and political issues associated with such financings. The Advisory Committee will recommend financings to the Parties when appropriate and consistent with these Policies. The Advisory Committee will review its work and process on an "as-needed" basis.
- Members: The Authorized Representatives of the Parties will each appoint a mutually agreed number of persons to serve on the Advisory Committee. A Member may appoint a designee to act in their place. The Advisory Committee may consult with professionals such as legal counsel, financing consultants, auditors, and other service providers as needed in order to assist with the implementation and management of the Policies.

Long Range Financial Planning

The Party's ability to maintain its financial stability is enhanced by engaging in sound, long range, financial planning. Under the direction of the Authorized Representatives, the Advisory Committee will review and update long range plans. Updates will identify and prioritize the capital investments to be made, and provide budget and cash flow projections for such investments. To the extent insufficient revenues are identified, the Advisory Committee will notify the Parties so that projects can be reduced or deferred or a recommendation can be made regarding alternative funding sources. Such funding sources may include the following:

o Existing Users: Pay maintenance and operations (M&O) fees that will fund the operations of the Regional Facilities and capital costs providing benefit to existing users. The timing and amount of M&O fees paid from existing users is certain, and can therefore be relied on to pay debt repayments.

o Future Users: Pay their fair share of regulatory compliance and capacity needed to serve new development when building permits are issued. The timing and amount of connection fees are uncertain, and therefore are not considered reliable for purposes of making debt payments. Consequently, if debt is intended to be repaid from connection fees, it is important that the Parties maintain reserve funds that can be used to fund debt service payments in the event that connection fees do not materialize as anticipated.

- <u>Fund Balances/Reserves</u>: Reserve Funds are a primary funding source for capital improvements, required for the Regional Facilities. In order to ensure available funding, reserves should be used only for capital expenditures, rate stabilization, and debt service coverage. Reserves should not be used for operating cash purposes.

- <u>Other Funding Sources</u>: The Advisory Committee will consider other funding sources that serve the Regional Facilities. Such funding sources may include the following:
  - Subsidies may be provided for any purpose including, rate/fund stabilization.
  - State and Federal Grants may be provided. The Advisory Committee will encourage the use of such grants when available.

Short Term Debt

The Advisory Committee may recommend "bridge financing" to the Parties to satisfy short term cash flow needs. The Advisory Committee will only recommend "bridge financing" when there is a repayment source that is certain in terms of timing and amount to repay the principal and interest of the bridge financing when due. This type of financing is short-term in nature with a term of up to five years.

Long Term Debt

Participating in the Regional Facilities will require the Parties, and possibly other agencies, to incur debt that cannot be repaid within a short period of time (typically one to five years). Such debt may be referred to as long term debt. Long term debt may be necessary to complete future capital investments that will be required for certain purposes related to the expansion, conveyance and regulatory compliance of the Regional Facilities.
Debt issued to support the treatment plant can be issued using various financing techniques, including but not limited to the following:

- <u>Revenue Debt</u>: Payable from a specific pledged revenue source

- <u>Direct Debt</u>: Payable from general revenues, including Certificates of Participation and capital leases

- <u>State Revolving Loans</u>: Debt secured by a dedicated revenue source, but a variety of revenue sources may be used

- <u>Mello-Roos and Assessment Financings</u>: Debt payable from special taxes and assessments levied on real property

- <u>Internal Borrowing</u>: Loans for short term cash flow needs

- <u>Grant Anticipation Notes</u>: Loans payable from grants that have been budgeted and appropriated

There are numerous legal, policy and financial limitations that apply to the type of debt to be issued. The purpose of this policy is not to define the specific limitations of each type of debt that may be issue given the wide range of financing options.

The Advisory Committee should consult each Party participating in a financing to determine if there are specific financial and policy limitations that apply to the type of debt to be issued. Specific limitations found in existing policies may include, but not be limited to the following:

- Measurements of acceptable debt levels
- Use of variable and fixed interest rate debt
- Use of alternative financing products such as interest rate swaps
- Acceptable debt service amortization and financing term
- Criteria for determining method of sale
- Criteria for refinancing debt
- Use of third party professionals
- Covenant compliance

There are a few guidelines, however, that merit particular discussion given the nature of the repayment sources and debt burden. These guidelines are as follows:

- <u>Debt Service Coverage Ratio</u>: As part of the credit evaluation process for a financing, whether it be through the State Revolving Fund or a traditional tax-exempt financing, the lender will typically require the obligated parties to collect revenue in excess of annual debt service payments. This is called "debt service coverage". The State Revolving Fund requires revenues to equate to 110% of annual debt service. Traditional lenders may have significantly higher debt coverage requirements, depending on the overall credit quality of the issuer and market conditions at the time of a debt issuance.

- <u>Reserve Funds</u>: Parties that are obligated to repay debt should establish reserve funds needed to ensure adequate cash flow throughout the debt repayment period; provide sufficient debt service coverage; set-aside a debt service reserve fund as may be required as part of a loan. Available M&O and connection fee revenue collected during the construction period, but before debt repayment begins can be used to achieve balances to help repay a financing.

- <u>Equitable for Current and Future Users</u>: The type of user benefitting from a financing should be proportionally liable for repayment of the financing. Current users should not bear the cost attributable to future users and vice versa. Debt financing plans should demonstrate how financings will be equitable to each user group.

- <u>Security for debt repayment</u>: Typically, assets are used as security for debt repayment. The asset should have a value and useful life sufficient to support the debt issuance.

- <u>Conduit and Joint Power Authority Financings</u>: The Parties may decide to form a Joint Powers Authority ("JPA"). Typically, JPA's have the power to issue debt. It is common for a JPA to issue debt when there is more than one revenue source needed to repay debt. For example, a JPA may be used when combining enterprise fees and general fund revenues. In addition, under federal tax law, it may become necessary for the

Parties to issue debt, on behalf of certain private activities. JPA's may also be used for this purpose.

Review of Debt Financings

Members of the Advisory Committee should evaluate the various aspects of any financing. In particular, financings should be reviewed evaluated based on the following criteria:

- Purpose of the financing
- Project costs (Issuance and total costs)
- Repayment plan
- Debt structure
- Debt affordability
- Basis for assumptions
- Risks to issuing entity and parties obligated to repay debt
- Consideration of how financing fits into overall capital plan
- Issuance timing

The governing board or council of each Party should be presented with the results of the financing review before requesting formal approval of a financing.

Additional Provisions

Additional provisions may be added to assist in the prudent financial management and accountability of the Regional Facilities.