SACRAMENTO COUNTY	**Policy # 1600**
Subject: County Debt Utilization Policy	
Responsible Department: Budget and Debt	
Effective Date: 06/1989	**Revision Date:** 12/13/2022
Amanda Thomas **Chief Fiscal Officer** DocuSigned by: Amanda Thomas F53F39A92E7E485...	**Ann Edwards** **County Executive** DocuSigned by: Ann Edwards D14AE1270B894F0...

1. PURPOSE

The Debt Utilization Policy (the "Policy") is intended to provide County staff with a formal statement of existing policy and with general guidelines for the decision–making process of debt issuance and management. The Policy is also intended to serve as a tool for improved coordination and management of all debt in which the County has complete or limited obligation for debt repayment. Major elements of the Policy include:

A. <u>ESTABLISHING A COUNTY DEBT UTILIZATION COMMITTEE (CDUC)</u> The committee will have responsibility for reviewing, coordinating, and advising the County Executive and Board of Supervisors regarding proposed and existing debt issues in order to assure that debt is utilized in a manner most favorable to the County and only when in the best overall interest of the County.

B. <u>FORMALIZING THE DEBT PROPOSAL PROCESS</u> This Policy aims to formalize the concept that debt proposals by individual departments must be closely coordinated with the County's capital and operating budget processes and must take into account the impact of the proposed debt issue on the County's credit rating and total debt burden.

2. AUTHORITY

The Board of Supervisors adopted the County's Debt Utilization Policy on June 20, 1989. A Revised Policy was adopted by the Board of Supervisors and the Board of Directors of the Sacramento County Water Financing Authority on October 8, 2019. Additional entities may adopt the County Debt Utilization

Policy at a later time. Any entity adopting the County Debt Utilization Policy shall be included in any reference herein to "County" when referring to the issuer of any debt.

3. SCOPE

The County Debt Utilization Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and will govern all debt undertaken by the County. The County Debt Utilization Policy is applicable to departmental staff involved with utilization or management of County debt. The Policy will serve as a tool for improved coordination and management of all debt in which the County has complete or limited obligation for debt repayment. It is important that all County staff who work on any aspect of debt utilization or management become familiar with these policies, conform their related functions to the policies, and develop appropriate related departmental policies and/or procedures which are consistent with countywide policies. The County Debt Officer will assign responsibilities related to the analysis of proposed borrowings as well as monitor compliance with covenants and restrictions in executed debt agreements.

4. PROCEDURES

A. INTRODUCTION

The proper utilization of debt is a major financing tool of the County to finance capital projects and/or one-time, non-operating costs. Costs/risks versus benefits of borrowing will be the major consideration when evaluating each proposed utilization of debt as a source of financing specific for County needs.

Debt is utilized by the County to provide general or specific benefits to its citizens, and debt proposals may originate from various County departments. Debt proposals by individual departments must be closely coordinated with the County's capital and operating budget processes and must take into account the impact of the proposed debt issuance on the County's credit rating and total debt burden. Repayment of borrowed funds is of paramount concern to the County; therefore, proper structuring and continued management of County debt is critical. For these reasons, and to otherwise assure that debt is utilized only when in the best overall interest of the County, a formalized debt utilization review and coordination function is established as outlined in this policy.

B. COUNTY DEBT UTILIZATION COMMITTEE

a. **Purpose** - The County Debt Utilization Committee (CDUC) is established for the purpose of reviewing and advising the County Executive and Board of Supervisors regarding proposed and existing debt issues in which the County has complete or limited obligation for debt repayment and those in which the County is a party to the transaction. Such debt issues include limited obligation debt such as special assessment and Mello-Roos financing.

b. **Composition** - The CDUC shall be comprised of the following:

i. Chief Fiscal Officer
ii. Deputy County Executive of Administrative Services
ii. Deputy County Executive of Social Services
iv. Deputy County Executive of Community Services
v. Deputy County Executive of Public Safety and Justice
vi. Director of Finance
vii. County Counsel
viii. County Debt Officer
ix. Department, Agency or other issuer or obligor representative

A representative from a department proposing a new debt issue will work with the CDUC in performing review and analysis of the proposed debt. The Office of Budget and Debt Management shall be responsible for the overall coordination of CDUC functions. The County Debt Officer will be responsible for the coordination and administration of all County debt. Necessary staff assistance to the County Debt Officer and the CDUC shall be provided as appropriate by the Department of Finance, County Counsel, and the department proposing the borrowing. For each debt issue, the County Debt Officer will be designated as the person responsible for: (1) initiating, follow-up and other coordination of the many decisions and other requirements involved in issuing County debt; and (2) establishing appropriate processes for monitoring compliance with covenants and restrictions contained in the debt agreements.

The County Debt Officer will utilize Bond Counsel, Disclosure Counsel, Financial Advisors, Underwriters, and other specialized services as appropriate for issues being considered. When additional services from outside firms are needed, County Debt Officer should assure that there is appropriate consideration of and retention of women and minority owned firms when it is in the best interest of the County and in conformance with related County policy.

c. **Subcommittees** - The CDUC may establish subcommittees as appropriate to best utilize available County expertise in the review and coordination of specific areas such as the following:

i. Design and Construction: When applicable to the proposed issue, a design and construction subcommittee may be used to assist in the preparation of a design and project description and cost estimate to be included in the borrowing documents. Representatives from the Department of General Services, Office of Budget and Debt Management, Department of Finance, County Counsel, and proposing departments, agencies, or issuer or obligor should be included in this activity as appropriate.

ii. Finance/Accounting: When applicable to the proposed issue, a finance/accounting subcommittee may be used to assist in the determination and assignment of responsibilities for estimation and managing cash flow, establishing appropriate separation of funds and account records, and other finance/accounting matters. Representatives from the following departments should be included in this activity as appropriate:

- Office of Budget and Debt Management

- Department of Finance
- Proposing Department, Agency, or other issuer or obligor

C. **<u>REVIEW AND ANALYSIS OF DEBT PROPOSALS</u>**. All proposed borrowing to which the County of Sacramento is a party shall be submitted through the Office of Budget and Debt Management for review and recommendations by the CDUC. The CDUC will review the proposed borrowings and assure that the County Executive and the Board of Supervisors are properly advised on relevant considerations, including the following as appropriate:

a. The costs/benefits/risks of recommended borrowing, including Net Present Value financial benefits and Internal Rate of Return.

b. Legal liability of the County, if any.

c. Impact on ability of the County to borrow short-term or long-term (future debt capacity, rating impact, etc.).

d. Financing stability of the parties involved and the ability of the department/County to generate the debt service requirements.

e. Impact on time and effort required by County staff; i.e., County Counsel, Office of Budget and Debt Management, Director of Finance, etc.

f. Adequacy of coverage and payment procedures in case of default (e.g., guarantees, insurance, etc.) and establishment of standards for Judicial Foreclosure.

g. Provision for accurate and timely redemption procedures; i.e., trustee, sinking funds, notification in case of early calls, registry of bond, etc.

h. Responsibility, if any, of the County for monitoring the full compliance reporting requirements of the proposed borrowing.

D. **<u>POLICY COMPLIANCE/EXCEPTIONS</u>**. Related departmental policies and procedures should be developed as necessary and shall be consistent with these countywide policies unless requested exceptions for special circumstances are approved by the CDUC or Board of Supervisors as appropriate. Unless exceptions are approved, the countywide policies shall prevail in any instance of conflict between countywide and departmental policies or procedures.

5. DEFINITIONS

A. NET PRESENT VALUE (NPV). The current value of a dollar today, that is to be paid or received in some future time period, net of associated costs.

B. INTERNAL RATE OF RETURN (IRR). The yield or interest rate at which the present value of future cash flows of an investment is equal to the initial cash outlay for the investment.

C. JUDICIAL FORECLOSURE. A foreclosure process for assessment and special tax districts in which the County may order the institution of a superior court action to foreclose the lien on the property within a specific time limit. In such a foreclosure, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale.

6. DEBT RELATED BUDGET POLICIES

A. GENERAL. Short-term and long-term borrowing will be limited to borrowings that are within prudent limits regarding applicable debt ratios and those which improve County cash flow and related interest earning capabilities. Appropriate restricted reserves for related future obligations should be maintained. Borrowings in which the General Fund credit is utilized may include borrowings where debt service is covered in part by other dedicated revenues from General Fund departments. If a debt issuance is to be financed by General Fund revenues, there should be a demonstrated benefit to a significantly large proportion of the County of Sacramento's property taxpayers. If the project would primarily serve a definable group of taxpayers, the obligation to repay the debt should be borne by that group of taxpayers when feasible. In certain instances, the Board of Supervisors may determine that exceptions to this general guideline would be in the best interest of the County.

7. DEBT LIMITS

A. PURPOSE. Debt should be utilized when it is in the best overall interest of the County, including appropriate short-term borrowings and financing of certain assets with substantial economic lives. All proposals to use debt, the impact of debt financing on the County financial condition, and the ultimate cost of issuing debt should be evaluated by the County Debt utilization Committee. Specific borrowings should be included in the County's larger capital plan and should be examined alongside other financing alternatives, including pay-go funding. The principle of taxpayer equity should be a primary consideration in determining the type of projects as well as the type of financing to utilize.

a. The types of debt obligations that may be issued under this Policy include, but are not limited to:

i. General Obligation (GO) Bonds

- GOs may be used to finance or refinance the acquisition, improvement, and/or construction of real property that benefits the public at large.

ii. Lease Revenue Bonds (LRBs) / Certificates of Participation (COPs)

- LRBs / COPs may be used to finance the acquisition, improvement, and/or construction of real property or the acquisition of capital equipment and other capital projects.

iii. Pension Obligation Bonds (POBs)

- POBs should be issued only to refund outstanding POB when it will result in debt service savings to the County or if there is a need to mitigate any concerns related to the structures of the current outstanding POBs.

iv. Revenue Bonds and Notes

- Revenue Bonds and notes are obligations payable solely from specific special fund sources and may be used to fund projects backed by restricted revenues or user fees (enterprise revenues). It is preferable that in any instance where the enterprise revenue can support the issuance of debt, that it does so rather than issuing debt backed by the General Fund.

v. Assessment District / Community Facilities District (CFD) Bonds

- Assessment District or CFD Bonds will be used to facilitate improvements to tangible or real property providing public benefits in connection with new development in the County.
- These bonds will be issued in accordance with the Second Amended and Restated Special Assessment and Community Facilities District Financing Program Local Goals and Policies, as amended.

vi. Tax Allocation Bonds subject to state law

vii. Tobacco Settlement Asset-Backed Bonds

- Tobacco Settlement Asset-Backed Bonds may be issued for various purposes and backed by revenues from legal settlements with tobacco companies.

b. The County may find that alternative forms of debt will further public purposes and may approve the issuance of such debt without an amendment to this Policy as recommended by the CDUC.

B. <u>TERMS OF DEBT</u>.

Depending on the County's needs, debt may be issued:

a. On a long-term basis (bonds);

b. On a short-term basis (short-term leases and notes, lines of credit, etc.);

i. The uses of short-term financing will include, but are not limited to, funding the County's cash flow deficit in anticipation of tax and revenue receipts and funding capital costs in anticipation of refinancing these costs on a long-term basis.

c. Publicly;

d. Privately, if a private process suits the County's needs;

e. With fixed rate debt, which is the County's preferred approach;

f. With variable rate debt, in limited instances, such as refunding current variable rate obligations;

g. Tax-Exempt: the County will issue tax-exempt debt whenever possible to obtain the most cost-effective borrowing; and/or

h. Taxable: only issued if there is no tax-exempt alternative and the project is in pursuit of other necessary public objectives or if the taxable financing offers an advantage over tax-exempt financings.

C. **LEGAL LIMITATIONS**. The County Debt Officer shall determine if the proposed debt transactions comply with the debt limitations prescribed by the Policy. Proposed debt transactions that meet the limitations of the Policy will be subject to approval by the Board of Supervisors and in accordance with State law and the County's existing bond documents. The County will keep outstanding debt within the limits of applicable law and at levels consistent with its creditworthiness objectives.

8. **DEBT STRUCTURING**. Debt will be structured in accordance with federal tax law, when applicable, and for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The term of the debt must not exceed the physical life of the financed asset and, ideally, will match the useful life of the asset. The amount of any financing should generally be held to a minimum, taking into consideration any available existing funds to partially fund project costs. In structuring its debt, the County will strive to maximize flexibility and achieve the lowest interest cost possible. To that end, the County will consider a variety of financing tools available to it including, but not limited to, the following:

A. **PREMIUM AND DISCOUNT COUPONS**. Discount and premium coupons shall be determined on a case-by-case basis in line with this Policy.

B. **DEBT SERVICE RESERVE FUNDS**. While the County generally hopes to minimize the use of debt service reserve funds because of their cost, when appropriate a debt service reserve fund will be used to adhere to prevailing standards of the municipal bond market, such that the credit profile of issued debt will be best positioned to achieve optimal pricing.

C. **CAPITALIZED INTEREST.** While the County generally hopes to minimize the use of capitalized interest because of its cost, the County may utilize capitalized interest to fund debt service on projects for which revenue may not be immediately available for payment (such as lease financings).

D. **CALL PROVISIONS.** The County will explore all potential call features to preserve optionality, though the County anticipates utilizing a traditional 10-year call in most of its financings.

E. **CREDIT ENHANCEMENT.** The County will explore credit enhancement methods and consider structuring entire issuances or select maturities with a form of insurance policy or debt service reserve fund surety policy if it will benefit the County.

F. **DERIVATIVES.** These products carry with them certain risks not faced in standard debt instruments, and should only be utilized in limited circumstances, such as refunding existing debt that utilizes derivatives.

9. DEBT ISSUANCE

A. **ISSUING PLAN**. The department proposing the debt issue should begin working with the County Debt Officer to begin the review at least six months prior to the proposed issuance of debt. Once a plan is fully developed, the County Debt Officer will take the lead role in presenting the issuance to the CDUC. The proposing department is generally responsible for formally communicating the proposals to the County Executive and Board of Supervisors through the Department of Budget and Debt Management.

The department proposing the debt issue will prepare and submit statements on the following to the CDUC for its review, analysis, and recommendations:

a. Purpose and feasibility of the project;

b. Public benefit;

c. Available project alternatives;

d. Estimated total costs of the project (excluding costs of financing);

e. Estimated additional ongoing operational costs and any offsetting revenues resulting from the project;

f. Appropriate revenue streams for payment of debt service; and

g. Estimated total General Fund impact from debt service requirements and changed operational costs.

B. **CREDIT OBJECTIVES**. The County seeks to maintain and, if possible, improve its current long-term and short-term debt ratings in order to enhance the County's reputation within the financial community and to minimize borrowing costs. Emphasis should be placed on protecting the General Fund and enhancing the County's financial condition. Furthermore, the County will maintain good communication with the bond rating agencies and keep them apprised of the County's financial condition through provision of relevant reports and documents. As stated previously, the County may issue some unrated debt for public purposes, in which case the County will take appropriate measures to mitigate the risks associated with unrated debt.

C. **METHOD OF SALE**. In considering alternative methods of sale, the County's primary objective is generally to achieve the lowest possible borrowing cost in any debt issuance. The County may utilize all methods of sale at its disposal to realize this goal. Below are some further considerations:

a. Competitive or Negotiated Sale - Determination of whether to sell bonds under a competitive bid or a negotiated sale will depend on many factors, including: the market environment; timing considerations; structure of financing; credit quality; and type of bond or other financing instrument. However, recommended issuances of debt will always be based primarily on judgements of which available options will most likely result in the overall lowest net cost to the issuer.

b. Public Issuance or Private Placement/Direct Purchase – The County will consider both the public and private markets when issuing debt. For larger debt offerings, public offerings will typically offer a lower cost of funds. However, the County may consider a private placement for smaller issuances with shorter terms, specific bond structures, or financings with short lead times.

D. **REFUNDINGS**. Periodic reviews of the County's outstanding debt will be conducted to identify potential refunding opportunities. Refunding debt issuances will be considered (within federal tax law constraints when applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or debt service structure. In general, refundings which produce a Net Present Value savings of at least three percent (3%) of the refunded principal amount will be considered economically viable. Refundings which produce a Net Present Value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative Net Present Value savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

E. **FINANCIAL SERVICES**. After initial review of the proposed borrowings and consultation with the proposing departments, the County Debt Officer will determine the required financial services for the proposed borrowings and initiate retention of such services as appropriate. In some instances, it will be possible to utilize services from firms already providing financial services to the County on a continuing basis:

a. Bond Counsel – to assist in the legal structure and preparation of the bond documents, including assistance and appropriate opinions related to tax-exempt status.

b. Financial Advisor or Analyst – to assist the County Debt Officer and the department proposing the debt issue on various financing factors, including the structure and terms of the financing in compliance with Government Code Section 53691 and other relevant laws and codes.

c. Underwriter – in the case of a negotiated publicly offered debt issuance to market and sell the County's debt to investors, underwrite the bond issue for the County and provide market timing recommendations.

d. Lender/Bank – in the case of a privately placed debt issuance to purchase the debt of the County directly.

e. Disclosure Counsel - to draft disclosure documents and advise on all disclosure issues.

f. Underwriter/Bank Counsel – to draft the bond purchase agreement and advise the Underwriter/Bank as needed.

g. Other financial services as required.

The County will ensure that the terms and conditions of any contracts entered into with the parties above are in the best interests of the County. The County will use a Request for Proposals (RFP) procurement process to assist in the selection process for each of these services when it is in the County's best interest to do so. The County will also take steps to ensure each party has no conflicts of interest while under contract with the County.

F. **SELECTED SERVICES**. Additional specialized services may be required according to the structure and characteristics of specific debt issues. Such services may be provided by County staff and/or by contract with outside sources as determined by County Debt Officer or conditions of the issue. In some instances, the County Debt Officer may determine that a specific department should coordinate the retention of certain services such as the following:

a. Outside Engineer or Consultant – may be selected by the issuing department as required.

b. External Auditors – shall be selected by the County Director of Finance in order to coordinate with the countywide audit.

c. Trustee, Paying Agent, Registrar – shall be selected by the County Debt Officer in order to properly coordinate the long-term handling of the debt issue.

The County will ensure that the terms and conditions of any contracts entered into with the parties above are in the best interests of the County. The County will use a Request for Proposals procurement process to assist in the selection process for each of these services when it is in the County's best interest to do so. The County will also take steps to ensure each party has no conflicts of interest while under contract with the County.

10. DEBT MANAGEMENT. Current financings and outstanding debt issues should be managed as a whole as well as individually in such a fashion as to minimize the cost of capital, to maintain a high level of creditworthiness, to minimize demands on the General Fund, and to preserve flexibility with regard to future debt and revenues. As the municipal debt market changes, all outstanding debt should be monitored to take advantage of changing opportunities.

A. BOND PROCEEDS. The use of proceeds from long-term financings will be limited to the uses authorized by law and allowed by the provisions of the particular debt issue. Generally, these limitations will allow for paying the costs of planning, design, land, construction or acquisition of buildings, permanent structures, attached fixtures and/or equipment, movable furniture and equipment, and also the costs of planning and issuing the debt. Bond proceeds will only be expended on costs directly related to the project, or long-term liability, unless otherwise provided for in the particular debt issue and when it is in the best interest of the County to use such funds for other allowed spending.

Investment of proceeds of bonds or other forms of debt shall be consistent with applicable Federal tax requirements and any applicable State law requirements, the County's Investment Policy, and requirements contained in the governing documents. Below is a link to the County's Investment Policy:

http://www.finance.saccounty.net/Investments/Documents/InvestmentPolicy.pdf

The County will comply with applicable IRS regulations and provisions including arbitrage rebate calculations, rebate of arbitrage profits, and any necessary tax filing.

B. **DISCLOSURE/COMPLIANCE MONITORING**. After completion of a financing, the proposing department, agency or any other issuer (or obligor) shall provide the CDUC with the following:

a. A statement summarizing the covenants and restrictions contained in the debt agreement(s) which require periodic monitoring for compliance;

b. An appropriate schedule for periodic review and reporting on compliance with such covenants and restrictions.

It is the responsibility of the proposing department (or fund) to monitor the necessary compliance with the covenants and restrictions and to document and report such compliance to the CDUC and to others according to the reporting schedule and as otherwise required in the debt agreement(s).

County staff, and more specifically the County Debt Officer and/or Chief Fiscal Officer, will ensure that the County is compliant with initial and continuing disclosure requirements, including SEC Rule 15c2-12, and will adhere to any new, associated legal requirements the SEC implements as it pertains to any specific debt issuance.

11. **REVIEW.** The County will review this Policy as needed and revise it as appropriate to comply with any changes in guidance and regulations.