

**COUNTY OF SANTA BARBARA
DEBT ISSUANCE DISCLOSURE POLICY**

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SECTION 1 - PURPOSE

In furtherance of the County's Debt Management Policy, the purpose of this Debt Disclosure Policy (Policy) is to memorialize and communicate procedures in connection with financing obligations, including notes, bonds and certificates of participation, that are publicly issued by the County of Santa Barbara (County) so as to ensure that the County continues to comply with all applicable disclosure obligations and requirements including under the federal securities laws.

Care should be taken not to shortcut or eliminate any steps outlined in this Policy on an ad hoc basis. However, this Policy is not intended to be a rigid list of procedural requirements, but instead to provide guidelines for disclosure review. If warranted, the Policy should be reviewed and updated based on experience during financings or because of additional SEC pronouncements or other reasons.

SECTION 2 - BACKGROUND

The County from time to time issues certificates of participation, revenue bonds, notes or other obligations, (collectively, "Obligations") in order to fund or refund capital investments, other long-term programs and working capital needs. It is the policy of the County to remain in compliance with industry standards and all SEC rules and guidelines by filing its annual financial statements and other financial and operating data for the benefit of all interested parties in a timely manner. Additionally, each County department, agency, district or authority issuing or managing debt will ensure that applicable state and federal regulations and laws regarding disclosure are observed in all financings and all annual reports and material event notices are filed with the appropriate state and/or federal agencies in a timely manner.

SECTION 3 - ENGAGEMENT OF OUTSIDE DISCLOSURE COUNSEL

Depending on the nature of the issuance, the County may engage independent outside Disclosure Counsel or Bond Counsel may also serve as disclosure counsel: both have a confidential, attorney-client relationship with officials and staff of the County. Disclosure Counsel has expertise in securities laws and provides advice with respect to the County's disclosure obligations and requirements under the federal securities laws.

Disclosure Counsel assists the County in preparing the Official Statement, and reviews all new data and updates to the Official Statement, providing advice as to standards of materiality and other securities law issues. Disclosure Counsel also assists the County in the development of a "big picture" overview of the County's financial condition, included in the forepart of the Official Statement, which highlights particular areas of concern.

Disclosure Counsel also provides a negative assurance letter as to the disclosure set forth in the Official Statement for each County Obligation. The letter advises the County and the underwriters of the Obligations that, as a matter of fact and not opinion, no information came to the attention of

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the attorneys working on the transaction which caused them to believe that Official Statement as of its date and as of the date of their letter (except for any financial, statistical, economic or demographic data or forecasts, charts, tables, graphs, estimates, projections, assumptions or expressions of opinion, and other customary exclusions), contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

SECTION 4 - OFFICIAL STATEMENT

When the County issues Obligations, the two central disclosure documents which are prepared are a preliminary official statement (POS) and a final official statement (OS, and collectively with the POS, "Official Statement"). Investors use the Official Statement as one of their primary resources for making informed investment decisions regarding the County's Obligations.

The Official Statement generally consists of (i) a forepart which describes the specific transaction including maturity dates, interest rates, redemption provisions, the specific type of financing, the leased premises (in certificate of participation financings) and other matters particular to the financing, (ii) a County General Information (GI) section which provides information on the County's financial condition as well as certain economic and demographic information concerning the County and (iii) various appendices, including the County's audited financial report, form of the proposed legal opinion, and form of continuing disclosure undertaking.

Additional information included in the Official Statement will reflect the particular source of payment for the Obligations: obligations payable from the County General Fund will contain information concerning the General Fund, and obligations payable from specific enterprise funds of the County (such as Solid Waste or County Sanitation Districts) will contain information relating to the specific enterprise.

SECTION 5 - TRAINING

Prior to preparation of any Official Statement, training for the staff involved in the preparation of the Official Statement will be coordinated by the TTC and County Counsel offices, with the assistance of appropriate professionals including Disclosure Counsel or a Municipal Advisor. These training sessions are provided to assist staff members involved in identifying relevant disclosure information to be included in the GI section. The training sessions also provide an overview of federal laws relating to disclosure, situations in which disclosure rules apply, the purpose of the Official Statement and GI section, a description of previous SEC enforcement actions and a discussion of recent developments in the area of municipal disclosure. Attendees at the training sessions are provided the opportunity to ask questions concerning disclosure obligations and are encouraged to ask questions at any time to ensure legal compliance.

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SECTION 6 - DISCLOSURE PROCESS

When the County determines to issue Obligations, Treasurer-Tax Collector (TTC) staff typically take the lead in requesting the involved departments to commence preparation of the portions of the Official Statement for which they are responsible.

County Executive Office (CEO), Auditor-Controller (AC), TTC and County Counsel staff are responsible for reviewing and preparing or updating certain portions of the GI section which are within their particular area of knowledge. TTC staff will also bring into the process County personnel with particular knowledge or expertise relating to the source of repayment of the obligations (for example, Public Works staff for obligations payable from enterprises managed by Public Works). Additionally, all participants in the disclosure process are separately responsible for reviewing the entire Official Statement.

The TTC staff schedules one or more meetings or conference calls with the financing team working group (which includes County officials, the County's Financial Advisor, Disclosure Counsel, Bond Counsel, the Underwriter of the Obligations, and their counsel), and new drafts of the forepart of the Official Statement and GI section are circulated and discussed. During this part of the process, there is substantial contact among County staff, other members of the financing team and Disclosure Counsel, to discuss issues which may arise, determine the materiality of particular items, and ascertain the prominence in which the items should be disclosed.

Prior to distributing a POS to potential investors, there is a formal meeting which includes County officials involved in the preparation of the POS and the underwriters and their counsel, during which the Official Statement is reviewed in its entirety, page by page or section by section, to obtain final comments and to allow the underwriters to ask questions of the County's senior officials. This is referred to as a "due diligence" meeting.

Between the POS and final OS, any new changes and developments will have been incorporated into the POS/OS if required. If necessary to reflect developments following publication of the POS or OS, as applicable, supplements will be prepared and published.

In connection with the closing of the transaction, one or more senior County officials execute a certificate stating that the Official Statement, as of the date of each OS and as of the date of closing, does not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements contained in the Official Statement in light of the circumstances under which they were made, not misleading.

SECTION 7 - GENERAL INFORMATION SECTION

The information contained in the General Information (GI) section is primarily developed by personnel from the CEO, AC, TTC and County Counsel offices. In certain circumstances, including when County Obligations are secured by particular revenues (such as revenues of a special revenue fund or dependent special district), additional officials will also be involved. In addition, the County

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may elect to engage a Municipal Advisor (MA), who will participate throughout the process of preparing the Official Statement and developing the structure of the financing.

The following principles govern the work of the respective County staff who contribute information to the GI section:

- County staff involved in the disclosure process are responsible for being familiar with federal securities laws as they relate to disclosure.
- County staff involved in the disclosure process should be instructed to raise all potential issues when preparing or reviewing information for disclosure. Officials and staff are encouraged to consult with Disclosure Counsel if there are questions regarding whether an issue is material or not.
- The process of updating the GI section from a previous debt transaction should not be viewed as being limited to updating tables and numerical information. While it is not anticipated that there will be major changes in the form and content of the GI section, everyone involved in the process should consider the need for revisions in the form, content and tone of the part they are updating.
- The County must make sure that the particular officials involved in the disclosure process are of sufficient seniority such that it is reasonable to believe that, collectively, they are in possession of material information relating to the County and its finances.
- The Board of Supervisors (Board) will receive a Board Agenda packet that will have the board letter, POS (which lists the County officials involved in the financing) and other items relating to the debt issuance.

It is the Board's obligation to 1) assure themselves that appropriate senior County officials have been involved in preparing the POS, and there has been a robust process to ensure its accuracy and completeness; and 2) if they are aware of any particular areas of concern, satisfy themselves that the POS appropriately addresses them. The Board is not obligated to double-check every number and statement in the POS.

SECTION 8 - ANTI-FRAUD RULES

In offering Obligations to the public, and at other times when the County makes certain reports, the County must comply with the "anti-fraud rules" of federal securities laws. ("Anti-fraud rules" refers to Section 17 of the Securities Act of 1933 and Section 10(b) of the Securities and Exchange Act of 1934, and regulations adopted by the Securities and Exchange Commission under those Acts, particularly "Rule 10b-5" under the 1934 Act.)

The core requirement of these rules is that potential investors in Obligations must be provided with

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all “material” information relating to the offered Obligations. The information provided to investors must not contain any material misstatements, and the County must not omit material information which would be necessary to provide to investors a complete and transparent description of the Obligations and the County’s financial condition. In the context of the sale of securities, a fact is considered to be material if there is a substantial likelihood that a reasonable investor would consider it to be important in determining whether or not to purchase the securities being offered.

SECTION 9 - SB 1029 REQUIREMENTS

The County is required to comply with SB 1029, including any regulations that may be adopted by the California Debt and Investment Advisory Commission (CDIAC). Effective January 1, 2017, Cal. Gov. Code section 8855(i) requires issuers to provide the following to CDIAC:

- No later than 30 days prior to the sale of any debt, issuers must certify on the Report of Proposed Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed debt is consistent with those policies. SB 1029 also specifies what must be included in the issuer’s debt policies.
- The issuer must submit a Report of Final Sale to CDIAC not later than 21 days after the sale of the debt, along with specified documents.
- Issuers are required to submit an Annual Debt Transparency (ADTR) report for any issue of debt for which they have submitted a Report of Final Sale during the reporting period. The Treasurer-Tax Collector will prepare the ADTR and submit to CDIAC on or before January 31st of each year, for each issue of debt, until such debt is no longer outstanding or the proceeds of the debt have been fully spent, whichever is later. The ADTR requires issuers to report on the balance of the issuer’s authorization to issue the debt, the amount of principal paid, the amount debt outstanding, and qualitative and quantitative information on how debt proceeds are spent.

SECTION 10 - ANNUAL CONTINUING DISCLOSURE REQUIREMENTS

In connection with the issuance of Obligations, the County has entered into a number of contractual agreements (“Continuing Disclosure Agreements”) to provide annual reports related to its financial condition (including its audited financial statements) as well as notice of certain events relating to the Obligations specified in the Continuing Disclosure Agreements. The County must comply with the specific requirements of each Continuing Disclosure Agreement.

The Auditor-Controller will prepare an Annual Disclosure Report designed to meet the continuing disclosure requirements of the Securities and Exchange Commission (SEC) rule 15c2-12. The County has covenanted, within the Continuing Disclosure Agreements related to the applicable issuances, to provide the included financial information and operating data relating to the County not later than nine (9) months following the end of the County’s fiscal year. This report will be filed by the County, through its trustee, with the Electronic Municipal Market Access (EMMA)

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system. Notices of material events will be filed by the County, through its trustee with the Municipal Securities Rulemaking Board. The County is fully committed to annually updating information and disclosing material events when they occur. Specific events which require “material event” notices generally consist of the following¹:

- a) Any of the following events with respect to the Obligations (in a timely manner not more than ten (10) business days after the event):
 - 1. Principal and interest payment delinquencies;
 - 2. Unscheduled draws on debt service reserves reflecting financial difficulties;
 - 3. Unscheduled draws on credit enhancements reflecting financial difficulties;
 - 4. Substitution of credit or liquidity providers, or their failure to perform;
 - 5. Issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
 - 6. Tender offers;
 - 7. Defeasances;
 - 8. Rating changes;
 - 9. Bankruptcy, insolvency, receivership or similar event of the obligated person; or
 - 10. Default event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the Department, if any such event reflects financial difficulties. “Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

- b) Any of the following events with respect to the particular Obligations, if material:
 - 1. Non-payment related defaults;
 - 2. Adverse tax opinions or other material notices or determinations by the Internal Revenue Service with respect to the tax status of the particular Obligations or other material events affecting the tax status of the Obligations;
 - 3. Modifications to rights of holders of the particular Obligations;
 - 4. Optional, unscheduled or contingent calls of the particular Obligations;
 - 5. Release, substitution, or sale of property securing repayment of the particular Obligations;

¹ The list set forth above is applicable for transactions after February, 2019. Continuing disclosure undertakings for transactions prior to that date contained a similar, but less extensive list of material events.

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6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
7. Appointment of a successor or additional trustee or the change of name of a trustee; or
8. Incurrence of a Financial Obligation of the issuer or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the issuer, any of which affect security holders.

Particular care shall be paid to the timely filing of any changes in credit ratings on Obligations (including changes resulting from changes in the credit ratings of insurers of particular Obligations). County staff receiving notice of credit rating changes shall promptly provide that information to the Auditor-Controller.