

COUNTY OF SANTA BARBARA  
DEBT MANAGEMENT POLICY

The Board of Supervisors of the County of Santa Barbara has endorsed the following Debt Management Policy as a guideline for planning and management of municipal debt originated through the Santa Barbara County Treasurer. This policy statement provides general guidelines for the decision making process with regard to the issuance of municipal debt. It should be emphasized that this policy statement is intended to be a flexible administrative guideline for use by local government entities in originating municipal debt through the Treasurer. It is recognized that in many respects there are no absolute rules or easy formulas for debt financing which can substitute for a thorough review of all available information and a detailed consideration of the facts on a case-by-case basis.

A debt finance committee is hereby established to carry out this policy and to insure that prudent practices are followed and public expense minimized in the issuance of municipal debt. Ex officio members of the debt policy committee have been identified on the basis of their statutory roles in advising, managing, and assisting local government entities with their finances. Members of the committee also have personal expertise with regard to debt issuance and will use this expertise in the furtherance of the public interest.

Adopted 11/22/1991

## GOAL OF THE DEBT MANAGEMENT POLICY

The overriding goal of the debt management policy is to properly utilize debt as a major financing tool for the County of Santa Barbara. The use of debt, among other financing options, must provide general or specific benefits to its citizens in relation to the cost of repayment levied upon those citizens.

### IMPLEMENTING OBJECTIVES OF THE DEBT MANAGEMENT POLICIES

To Provide Benefits to the Public: Identify the benefits, cost savings and contribution to prudent use of debt financing. Invest cash to use municipal assets most effectively and to finance or refinance to maintain the lowest practicable cost.

Debt Repayment: Establish debt payment schedules that accommodate the ability to pay and synchronize the cost with the enjoyment of the benefits or useful life.

Capital Outlay: Identify the level of debt which the responsible agency is able to carry to use debt most effectively as one among several available financial tools. Closely coordinate with the responsible agency's capital and operating budget processes. Conduct a "soft-sell" campaign year-in and year-out, for advanced planning approaches.

Debt Overview: Take into account on a continuing basis the impact of debt on the county's credit rating and total debt burden.

### DEBT FINANCE COMMITTEE

A Santa Barbara County Debt Finance Committee is established to review proposed and existing debt issues where the Board of Supervisors of the County of Santa Barbara has complete or limited obligation for debt repayment. The committee will advise the Board of Supervisors and departments of its recommendations. The committee will provide attention and general guidance from concept to closing.

### FINANCING SUBJECT TO COMMITTEE REVIEW

All types of financing which have a payback schedule greater than one year are subject to committee review. These types of financing include, but are not limited to the following types:

1. General obligation bond issues ("G.O. Bonds")
2. Revenue bond issues
3. Lease-purchase agreements (not lease-rental) where title to an asset is to be obtained
4. Housing bond issues - "mortgage bonds"

5. Conduit financing of any type
6. Redevelopment agency debt financing - tax allocation bonds
7. Mello-Roos district debt financing
8. Assessment bonds
9. Marks-Roos bonds for debt-pooling among agencies
10. Certificates of Participation ("COP's")

### COMMITTEE COMPOSITION

For issuing agencies other than departments or special districts subject to the Board of Supervisors of the County of Santa Barbara:

Treasurer-Tax Collector  
County Counsel  
Auditor-Controller

For debt issued under the authority of the Board of Supervisors of the County of Santa Barbara or for special districts for which the Board of Supervisors serves as the Board of Directors:

Chief Administrative Officer  
Treasurer-Tax Collector  
County Counsel  
Auditor-Controller

#### Operational Responsibilities:

The Treasurer's Office will assume the lead role in staffing the committee. Each of the ex-officio members will nominate one lead person in his/her department as a committee working member.

Other staff assistance may be sought as appropriate by applicant entities which may assist them with more difficult problems for which the combined expertise may be useful.

The committee is expected to maintain a high level of ethics and proficiency and will utilize Financial Advisors, Underwriters, Bond Counsel and other specialized services as deemed appropriate to the special circumstances.

### APPLICANT COORDINATION WITH OTHER DEPARTMENTS

**County Administrative Officer:** When the proposed issue involves entities governed by the Board of Supervisors the Administrative Officer will assign a lead person in his/her department to work with the regular committee and the designated representative of the

applicant/department. The purpose is to assist in the justification of the asset or program and to closely coordinate the with the County's capital and operating budget process.

**Design and Construction:** When applicable to a proposed issue, representatives of Public Works and the proposing department will work with the regular committee. The purpose is to assist in the preparation of design/ project descriptions and cost estimates.

**Finance/Accounting:** When applicable, representatives from the proposing department or agency will work with the committee to assist in estimating and managing revenue sources, cash flows, establishing appropriate separation of funds and account records, and other finance/accounting matters.

## REVIEW AND ANALYSIS OF DEBT PROPOSALS

All proposed borrowing (including lease purchase obligations in which the County is a party) shall be submitted to the finance committee for their review and recommendations. It is anticipated that long term planning will prevail and any debt incurred will be well planned in advance. Although the committee is responsible for advising the Board of Supervisors regarding all financing, it is the responsibility of the department making the request to justify the asset or program to the Board.

The review analysis will include the following:

- 1) The types of financing alternatives available including paying "cash" versus incurring "debt".
- 2) The financial costs/benefits/risks of the recommended borrowing with a focus on the associated interest cost.
- 3) Debt service cash flow preparation. It is the applicant entity/department responsibility to clearly identify to the committee the revenue sources for repayment.
- 4) The ability of the applicant entity/department/county to generate debt service and the financial stability of the entities.
- 5) Determination of the required public review process including an analysis of legal considerations and necessary voter approvals.
- 6) Legal liabilities of the County/Board of Supervisors and adequacy of coverage in case of default.
- 7) Impact on time and effort required by County staff.
- 8) Identification of the responsibility for monitoring compliance reporting requirements of the proposed borrowing.

The committee will summarize its review analysis of the proposed borrowing. These reports will first be reviewed by the proposing department. The Committee will then submit its final report to the Board in coordination with the department.

## PROPOSAL PROCEDURES

**Application:** The department or entity proposing a debt issue should begin working with the Debt Committee early in the planning stages of any financing proposal. The committee will assist in the planning, organization, and structure of the debt financing. Scheduling of debt issues is a policy matter for the Committee.

A simple debt proposal must be prepared and submitted for the committee to begin its review, analysis and recommendations. The department, project coordinator, project name, project description (purpose and public benefit), estimated project cost, suggested repayment period and an appropriate revenue stream for debt service repayment is required. (See Exhibit A)

After an initial review the committee will work closely with the department to sort out project alternatives, estimate additional ongoing operational costs, identify savings, etc.

**Financial Services:** Many financial services will be provided by the debt committee or county staff. However, because of the specialized nature of debt issues the county will contract with outside sources as determined by the committee or conditions of the issue. The Committee will maintain a selection of qualified firms to provide financial services to the County on a continuing basis. This list will be available through the Treasurer. After initial review of the proposed borrowing the committee will determine the required services and request the Treasurer to negotiate for retention of such services where appropriate.

These services may include the following:

**Bond Counsel** - attorneys retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed bonds, the issuer has met all legal requirements necessary for issuance, and interest on the proposed bonds will be exempt from federal income taxation and, where applicable, from state and local taxation. Typically, bond counsel will prepare, or review and advise regarding, authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

**Underwriter** - a dealer which purchases the bond issue for resale. The underwriter may acquire the bonds either by negotiation with the issuer or by award on the basis of competitive bidding.

**Underwriter's Counsel** - attorneys retained to represent the interest of the underwriters in connection with the purchase of a bond issue.

**Trustee, Paying Agent, Registrar** - a financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract. The entity responsible for the payment of interest and principal on behalf of the

issuer to the bond holders. The entity responsible for maintaining records on behalf of the issuer for the purpose of registering the bond owners.

**Financial Advisor or Analyst** - a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. They may also be hired to advise on cash flow and investment matters. (In general they will only be used on more complex issues).

**Assessment Engineer** - a consultant hired to calculate special assessment charges against properties based on the value of benefits received.

**Auditors** - a certified public accountant hired to prepare opinions on financial statements, calculate arbitrage rebate or provide opinions on arbitrage calculations, or hired as a consultant to provide financial advice.

### DEBT ISSUE STRUCTURE

The structure and type of financing shall be dependent upon various factors, including the nature of the project to be financed, available revenue sources and revenue streams, budget impact, and the financial market environment.

**Competitive or negotiated issue:** Determination of whether to sell bonds under a competitive bid or negotiated sale will depend on many factors, including the market environment, timing considerations, structure of the financing, and type of bond or other financing instrument. The recommended issuance of debt will always be based primarily on judgments of which available options will most likely result in the overall lowest net cost to the issuer.

**Bond Structure:** The type of issue will be dependent upon the project and other relevant factors including: the reason for the issue; revenue source for repayment; legal authorities; and where required, voter approval.

The financing techniques available include: general obligation, limited obligation, limited tax, special tax, special assessment, certificates of participation, revenue bonds, mortgage revenue, industrial development, current and advance refundings, bond or grant anticipation notes, tax and revenue anticipation notes, among others.

## COUNTY OF SANTA BARBARA INTERNAL DEBT AND BUDGET POLICIES

The County of Santa Barbara will incur debt only within prudent debt ratio guidelines, in order to improve county cash flow and to take best advantage of related interest-earning capabilities. Debt scheduling is a policy matter subject to the Committee. Scheduling of debt issues will be in accordance with over-all county priorities.

All debt including lease-purchase agreements shall be budgeted in appropriate capital project funds and debt service funds. Estimated current capital outlays and the proposed revenues and "other financing sources" required to finance the capital outlay must be set forth in the annual operating budgets. The overall County budget will provide legal authorization in the form of clearly-specified appropriations for capital expenditures and debt service payments.

The Capital project and Debt service funds will be formally integrated with individual department budgets in a clearly defined manner. The individual department will appropriate funds as operating transfers to make payments such as annual rental payments, down payments, etc..

Committee members, whether regular or advisory, will minimize the cost of borrowing by not charging support costs to the debt projects.

Centralizing and integrating individual projects is intended to insure sufficient resources are available to defray expenses, to protect against project cost overruns, and to assist in proper planning, facilitate accounting and provide for improved information management and public disclosure.

### SPECIFIC CRITERIA/PROVISIONS:

**Benefits to the Public:** Debt should be utilized when it is in the best interest of the County. The use of debt must provide general or specific benefits to the public. The principle of taxpayer equity (who pays versus who benefits) should be a primary consideration in determining the type of projects as well as the type of financing to utilize. To the extent feasible, debt issued shall be tied to revenues from those taxpayers who will directly or indirectly receive the benefits of the debt. The term of the debt must not exceed the economic life of the financed asset and ideally it should match the useful life of the asset.

**Debt Uses:** The use of debt for long-term financing is limited to those uses authorized by law and allowed by the provisions of a particular debt issue. No financing will be undertaken to finance an operating deficit. Short-term financing to fund cash flow deficits in anticipation of tax and revenue receipts are authorized. All proposals to use debt must be evaluated by the debt committee to determine the impact on the county financial condition and the ultimate cost of the debt.



**Use of Debt Proceeds:** The provisions of the law and those of particular debt issues generally limit the use of proceeds as follows: To pay 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 debt. Bond proceeds shall only be expended on costs directly related to the project 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.

**Sizing the Debt Issue:** The amount of any financing should generally be held to a minimum, taking into consideration any available funds to partially finance project costs. Reserve funds and capitalized interest should be minimized if possible to reduce borrowing size unless it is in the county's best interest to do otherwise. Generally, debt on capital projects will only be issued upon receipt of acceptable and reliable construction bids. In certain situations, reliable estimates may be the basis for debt issuance.

**Non-Taxable Status:** Municipal debt is generally non-taxable. It is the county's policy to avoid actions which eliminate the non-taxable status of county borrowing unless it is determined that taxable status would be in the best interest of the county. The County will comply with applicable Internal Revenue Services (IRS) regulations including arbitrage rebate calculations, rebate of arbitrage profits, and any necessary tax filing.

**Debt Credit Rating:** The County seeks to maintain the highest possible long-term COP debt rating in order to enhance the county's reputation within the financial community and to minimize borrowing costs by offering high evidence of the ability and commitment of the County to repay debt.

The County's objectives in furtherance of this goal will be as follows:

1. To enhance the county's financial condition, to establish and maintain long-term capital, operating and debt planning policies;
2. To maintain a debt overview of the entire county including all overlapping municipal debt; and,
3. To and maintain good communication with the bond rating agencies, keeping them apprised about the county's financial condition through provision of relevant reports and documents.

**Debt Analysis:** When proposing a specific borrowing, county departments will work with the committee to provide an analysis showing how the borrowing conforms with all applicable criteria, including these debt policies. The analysis must include adequate consideration of alternative methods of financing.

**Compliance Monitoring:** After completion of a financing, it is the responsibility of the department to assure that compliance requirements of the debt agreements are monitored or completed. The department needs to be aware of the many complex requirements that must be monitored or funded. Many items may be routinely handled by other agencies but the burden of compliance is with the department.

**Santa Barbara County Finance Corporation:** The County Board of Supervisors has created this Corporation, a non-profit entity, to assist in the financing of public projects. The County and Debt Committee will assist the Corporation to ensure the health and quality of all of its outstanding debt.

**Debt Management:** Current financing and outstanding debt issues must 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 credit worthiness, and to preserve flexibility with regard to future debt and revenues. Refundings, prepayment and call provisions are among the many important debt management tools. As the municipal debt market changes, all outstanding debt must be monitored to take advantage of changing opportunities.

**Trustee/Treasurer's Continuing Oversight:** Ongoing relations, responsibility after project completed for life of the debt.