	COUNTY OF SAN BERNARDINO **POLICY MANUAL**	**No.** **15-01** **PAGE** 1 **OF** 4 **EFFECTIVE DATE** May 23, 2023
POLICY: DEBT MANAGEMENT POLICY		**APPROVED** DAWN ROWE Chair, Board of Supervisors

POLICY STATEMENT AND PURPOSE

The objective of this policy is to minimize the amount of outstanding debt necessary to fulfill the County's infrastructure and economic development responsibilities, and maintain the ability to incur present and future debt at minimal interest rates. The use of debt shall not endanger the County's ability to finance essential County services. The County recognizes that capital markets change and unforeseen circumstances may occur resulting in situations that are not covered by this Policy. In such situations, flexibility to modify certain Policy requirements may be necessary to achieve policy goals. Any modifications must be authorized by the Board of Supervisors.

DEPARTMENTS AFFECTED

All County agencies, departments and Board-governed Special Districts issuing debt.

DEFINITIONS

Arbitrage – The difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the tax-exempt bonds in higher-yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage in connection with tax-exempt bonds or other federally tax-advantaged bonds.

POLICY AMPLIFICATION

The County has issued debt from time-to-time to finance or refinance construction and improvements, to refinance pension obligations, and for cash flow purposes.

County financial management policies shall be designed to (i) maintain a balanced relationship between debt service requirements and current operating costs, (ii) encourage growth of the tax base; (iii) actively seek alternative funding sources; (iv) minimize interest costs; (v) and maximize investment returns. In accordance with this principle, the following must be considered:

I. General

A. Debt will not be used to finance ongoing operational costs. However, debt may be used, where economically efficient, to reduce or eliminate current long-term operational liabilities (e.g., pension obligations, etc.).

B. Whenever possible, the County shall pursue alternative sources of funding, when cost effective, in order to minimize the level of debt.

C. Whenever practical, voter approval of the method of debt shall be utilized.

II. Debt Limits

A. The County will conform to State statutes, federal tax and securities regulations.

B. Types of Debt

1. General Obligation Bonds (property tax supported)
    a. Usage will be evaluated first since it is the least costly debt;
    b. Public support will be assessed for ballot placement due to the costs involved for an election.

2. Revenue Bonds and Certificates of Participation
    a. Revenue Bonds / Certificates of Participation may be considered for use where General Obligation Bonds are not practical.

b. Revenue Bonds will be considered where specific revenues are available which can be shown to be, both in amount and timing, sufficient to cover the costs of the project. Feasibility studies shall be performed for each project to determine the adequacy of dedicated revenue sources.

c. Certificates of Participation shall be considered as a method of financing capital assets over a multi-year period but not to exceed the useful life of an asset to be financed.

3. Short term Borrowing, such as commercial paper, bond anticipation notes, and lines of credit:
   a. Will be considered as interim funding sources in anticipation of long term financing;
   b. Short-term borrowings may be considered if available cash is expected to be insufficient to meet working capital needs of the County.

III. Financial Management

A. Budget

1. The Lead Department shall be responsible for ensuring debt service for all existing and anticipated debt is properly budgeted and appropriated for each fiscal year.

2. Finance and Administration shall be responsible for maintenance of debt service schedules for incorporation into the County's Five Year Forecast.

B. Relationship to and Integration with the Capital Improvement Program – As part of the capital planning process, capital projects will be evaluated and approved as defined I County Policy 05-05 Capital Budget Policy.

1. The use of debt financing will be recommended by the County Administrative Office only for projects where alternative sources of financing are not available and the project is deemed critical for the provision of services or to meet mandated service levels.

2. The use of debt financing shall determine project viability and guarantees of completion prior to the issuance of bonds.

3. When debt financing is issued, it will be used to acquire assets where the expected life equals or exceeds the average life of the debt issue.

C. Affordability Guidelines – In order to preserve credit quality, the County shall evaluate its credit capacity by calculating the following:

1. Debt Service Ratio – as calculated at the time of issuance, measured by net debt service payable from Countywide Discretionary General Fund revenue (excluding debt issued for cash flow borrowing) as a percentage of Countywide Discretionary General Fund revenue with a ceiling not to exceed 10.0% of Countywide Discretionary General Fund revenue.

IV. Bond Proceeds

A. To ensure that the proceeds of a proposed debt issuance will be directed to the intended use:

1. The Lead department shall comply with the separation of duties outlines in the County Auditor-Controller/Treasurer/Tax Collector's Internal Controls and Cash Manual.

2. The Lead department should employ the services of a Trustee for the disbursement of bond proceeds in accordance with the financing documents.

B. The County shall invest the proceeds of bonds/certificates of participation sales to conform to State and County requirements to maximize investment security and earnings. The County may exempt the term of investment from County requirements where such funds are not anticipated to be used until a specific time to maximize earnings.

1. All investments shall comply with the County's adopted Investment Policy, with the following exceptions or clarification allowed:
    a. Guaranteed Investment Contracts (GIC's) with AAA-rated counterparties are acceptable, provided there is a collateralization requirement in the event of a downgrade in the counterparty's rating to AA or below.
    b. Forward delivery of contracts and/or forward settlement of securities are acceptable.
    c. Purchase of State and Local Government Series (SLGS) for escrow accounts are acceptable.
    d. For investment of reserve funds and, when applicable acquisition of construction accounts, a maturity of longer than 5 years is permitted.

2. All investments of bond proceeds other than money-market mutual funds and SLGS shall be made on a competitive basis and shall comply with IRS and other state and federal requirements.

3. The County Debt Advisory Committee shall annually review investments of bond proceeds.

4. For unique circumstances or for situations justifying the use of securities not considered above, the Board of Supervisors may specifically approve other investments not listed above or in the County's Investment Policy on a case-by-case basis based on staff's recommendation.

V. Arbitrage Compliance

The Finance and Administration will monitor arbitrage rebate liabilities and establish procedures to reserve liabilities for future remittance to IRS. Finance and Administration will work with the Auditor-Controller/Treasurer/Tax Collector to retain the services of an outside tax consultant for routine calculation of arbitrage liabilities.

VI. Reporting Compliance

As required by the California Debt and Investment Advisory Commission, prepare and submit debt issuance reports including, but not limited to:

a. Report of Proposed Debt Issuance
b. Report of Final Sale
c. Annual Report to detail for period.
    i. Debt Authorized
    ii. Debt Outstanding
    iii. Use of Proceeds

VII. Training

Ensure all County personnel involved with debt issuance will be provided pertinent educational resources, enrolled in training/educational seminars and classes, and trained by knowledgeable staff to ensure compliance with all applicable Federal and State laws and regulations.

LEAD DEPARTMENT
Department Issuing Debt

APPROVAL HISTORY

Adopted December 20, 2016; Item No. 111; Amended May 23, 2023
Internal Review: December 2021

REVIEW DATES

Next Review: 2026