POLICY STATEMENT AND PURPOSE

The objective of the San Bernardino County Debt Issuance policy is to provide guidance regarding the issuance process including the selection and use of professional service providers, criteria for determining the method of sale, criteria for refunding bonds, and the use of credit ratings, minimum bond ratings, determination of the number of ratings and selection of rating services.

DEPARTMENTS AFFECTED

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

DEFINITIONS *(optional)*

Advance Refunding – An issue of new bonds (the "refunding bonds") to pay debt service on a prior issue (the "refunded bonds") wherein the refunding bonds are issued more than 90 days prior to the date upon which the refunded bonds will be paid.

Call – To give a notice of redemption; to redeem.

Continuing Disclosure Certificate – The ongoing disclosure provided by an issuer to an undertaking to provide annual reports and event notices pursuant to SEC Rule 15c2-12.

Credit Enhancement – A method whereby an entity attempts to improve its debt or credit worthiness including securitization, posting collateral and obtaining external credit enhancement such as a letter of credit.

Credit Rating – An independent appraisal of the credit quality and likelihood of timely repayment of a bond issue provided principally by Moody's Investors Service, Standard & Poor's Corporation, and Fitch Ratings ("rating agencies").

Current Refunding – An issue of new bonds (the "refunding bonds") to pay debt service on a prior issue (the "refunded bonds") wherein the refunding bonds are issued not more than 90 days before the date upon which the refunded bonds will be paid.

General Financial Advisor – Since September 2000, the County has retained a general financial advisor to provide the Board of Supervisors (Board), the Debt Advisory Committee (DAC), and staff with independent professional advice regarding all aspects of the County's debt program. These services benefit the County by reducing its debt exposure, reducing debt costs, and supporting policy formulation that allows the County to better serve all those involved in the debt process.

Maturity Date – With respect to a single bond, the date upon which the principal of the bond is stated to be due.

Net Present Value – The difference between the present value of cash inflows and the present value of cash outflows net of cost.

Official Statement – A document containing information about the bonds being offered, the issuer, and the sources of repayment of the bonds.

Par – Par or par value refers to the principal amount of a bond. A bond purchased "at par" means the price of the bond is equal to its principal amount.

Premium – The amount by which the price of a bond exceeds its principal amount or par value.

Principal Amount – The amount loaned/borrowed and to be repaid.

Rule 10b-5 – A rule established by the Securities Exchange Commission (SEC) that allows insiders of publicly traded corporations to set up a trading plan for selling stocks they own.

Underwrite – To purchase bonds from an issuer with the intent to resell the bonds to investors.

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.

The issuance of debt involves the selection of a financing team, structuring of the financing, the sale of the debt, and execution of legal documents. The following provides guidelines to be followed in the County's debt issuance process.

Financing Team

The County will execute professional service agreements with qualified professionals related to the issuance and management of debt, including, but not limited to: bond counsel, disclosure counsel, financial advisor(s), and underwriter(s).

In accordance with County policy 11-04 and working with a General Financial Advisor (if applicable), the Lead Department generally engages in a competitive procurement process for the selection of the financing team for each issuance of debt; provided, however, that certain circumstances may arise where a competitive process may not be feasible. All costs and fees related to the issuance of bonds will be paid from bond proceeds. The financing team may include:

1. Bond Counsel – To prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing including a written opinion by bond counsel affirming the County is authorized to issue the debt and that the County has met all State constitutional and statutory requirements.
2. Disclosure Counsel - To prepare the Preliminary Official Statement and Official Statement, review the Continuing Disclosure Certificate and review financing documents. Additionally, Disclosure Counsel will perform due diligence necessary to ensure compliance of the Preliminary Official Statement and Official Statement with all securities laws applicable to the County and to deliver a Rule 10b-5 opinion that is addressed to the County.
3. Underwriter - To underwrite the bonds and assist with the structure of the financing.
4. Independent Financial Advisor – To assist with structuring the financing including method of sale and timing, the selection of other financing team members, and to act as an independent consultant and market expert.

Method of Sale

While the County's preferred method is competitive, the Lead Department, in consultation with the DAC and a general Financial Advisor (if applicable), will select the method of sale most advantageous to the County in terms of lowest borrowing costs, net interest rate, most favorable terms in the financial structure used, market conditions, and/or prior experience while taking into account both short and long range implications for taxpayers and ratepayers.

1. Competitive Sale – A competitive sale is the sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale.
2. Negotiated Sale – A negotiated sale is the sale of bonds where the terms and price are negotiated by the County through an exclusive agreement with a previously selected underwriter.
3. Private Placement – A borrowing negotiated directly with banks or financial institutions. This process usually involves smaller, shorter term deals and allows the avoidance of the costs of public offerings.
4. Other methods of sale as may be available.

Bond Refinancing

The Lead Department shall continually review outstanding debt obligations and initiate any type of restructuring, refunding, or refinancing when beneficial to the County. Bond refinancing should be considered where there are opportunities to achieve interest cost savings, to remove or revise burdensome bond covenants, or to restructure the stream of debt service payments to improve cash flows.

The Lead Department will work with a general Financial Advisor (if applicable) to evaluate whether outstanding debt should be refunded incorporating the following factors in its analysis:

1. Issuance costs and interest rate, relative to historical rates, which the refunding bonds can be issued,
2. The maturity and call dates of the bonds to be refunded,
3. The call premium of the bonds to be refunded,
4. Structure and yield of the refunding escrow, and
5. Any transfer of proceeds penalty.

The Lead Department may issue refunding bonds when advantageous, legally permissible, prudent, and when aggregate net present value savings (expressed as a percentage of the par amount of the refunded bonds) equals or exceeds 3% for current refunding and 5% for advance refunding; provided, however, that there may be special circumstances where it is in the County's best interest to issue refunding bonds such as to remove or revise burdensome bond covenants. In no event will the maturity date of the refunding issue exceed the original maturity date of the refunded debt.

Credit Ratings and Enhancements

The County seeks to maintain the highest possible credit ratings for all categories of short and long- term obligations that can be achieved without compromising delivery of basic County services. Additionally, routinely communicating with rating agencies to keep them informed of significant developments that could affect the County's credit rating is an important part of a well-managed debt program.

The Lead Department will analyze each proposal for additional debt for its impact on the County's credit rating. The financing team will assess various economic conditions that may affect the County's credit rating and its effect on pricing in the current municipal bond market including:

1. The stability and reliability of sources for debt repayment,
2. The County's reserve levels,
3. The County's debt history and current debt structure, and
4. The County's history of fiscal responsibility and management capabilities.

The use of credit enhancement will be considered if it reduces the overall costs of the proposed financing.

The Lead Department shall encourage and maintain positive working relationships with financial and bond rating agencies. The Lead Department shall be responsible for disseminating all external communication to ensure information has been made available to all investors.

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