



**COUNTY OF SAN BERNARDINO
POLICY MANUAL**

No. 15-03

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EFFECTIVE DATE May 23, 2023

POLICY: DEBT STRUCTURE

APPROVED

DAWN ROWE
Chair, Board of Supervisors

POLICY STATEMENT AND PURPOSE

The objective of the San Bernardino County Debt Structure policy is to provide guidance regarding structuring of debt issuances.

DEPARTMENTS AFFECTED

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

DEFINITIONS

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.

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.

Revenue Bond – Bonds that (i) finance facilities for a revenue producing enterprise, and (ii) are payable from the revenues of that enterprise.

Swap – A derivative contract through which two parties exchange the cash flows or liabilities from two different financial instruments.

Certificate of Participation – An instrument evidencing a pro rata share in a specific pledged revenue stream, usually lease payments by the issuer that are typically subject to annual appropriation. The certificate generally entitles the holder to receive a share, or participation, in the payments from a particular project. The payments are passed through the lessor to the certificate holders. The lessor typically assigns the lease and the payments to a trustee, which then distributes the payments to the certificate holders.

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.

Term of Debt

The County shall issue bonds with terms no longer than the economic useful life of the project. For bonds supported by a dedicated revenue source, maturities and associated debt service shall not exceed projected revenue streams.

Debt Service

The County will first consider structuring the principal and interest repayments related to the entire project for which the debt will be issued on an approximate equal annual basis over the life of the borrowing. Refundings will be structured to produce upfront or level annual savings.

Call Provisions

The County will structure new debt issuances with a call provision of no more than 10 years to provide optimal future refunding opportunities. Call provisions longer than 10 years or noncallable bonds may be considered if a call provision does not provide significant expected refunding opportunity based on the structure of the debt.

Bond Insurance/Credit Enhancement

The County shall obtain secured guarantees in the form of bond insurance or other credit enhancement for bonds supported by a dedicated revenue source to the extent possible.

Tax Status

The County shall issue tax exempt bonds but can issue taxable bonds when necessary or practical.

Use of Variable Rate Debt

The County may elect to issue bonds / certificates of participation as variable rate instruments to provide flexibility and/or to attempt to achieve interest savings. When considering the issuance of variable rate debt, the following guidelines must be considered:

1. Feasibility: Economic and cash flow projections for variable rate issues shall be calculated at the then applicable fixed rate.
2. Capacity: Total variable rate debt shall be limited to no more than 25% of total debt outstanding.
3. Conversion: Not less than annually, analysis of each outstanding variable rate bond issue shall be undertaken to determine the advisability of converting the issue to fixed-rate debt.
4. Variable rate bonds shall be structured to protect the County to the greatest extent possible against cyclical interest rate fluctuations.

Swaps

The County will not use swaps for debt financing.

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