

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

217



FROM: Executive Office

SUBMITTAL DATE:
August 25, 2003

SUBJECT: County's Debt Management Policy

RECOMMENDED MOTION: Approve Board Policy B-24 (Debt Management Policy)

BACKGROUND: The County of Riverside's annual operating budget includes \$47 million in payments on Long Term Lease Obligations, or approximately 11.2% of discretionary revenue. As such, the management of the County's Debt requires careful planning including guidelines for debt issuance and management.

The County's Debt Advisory Committee (DAC) has developed a Debt Management Policy ("Policy") providing policies for the issuance and management of the County's debt. The intent of the Policy is to ensure the financial stability of the County, reduce the County's borrowing costs and protect the County's credit quality through proper debt management.

(CONTINUED)

Departmental Concurrence

[Signature]

Dean Deines
Principal Management Analyst

FINANCIAL DATA	Current F.Y. Total Cost:	\$ N/A	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$ N/A	Budget Adjustment:	N/A
	Annual Net County Cost:	\$ N/A	For Fiscal Year:	N/A

SOURCE OF FUNDS: N/A

Positions To Be Deleted Per A-30	<input type="checkbox"/>
Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: APPROVE.

[Signature]

County Executive Office Signature

Consent
 Policy
 Consent
 Policy
 Dep't Recomm.:
 Per Exec. Ofc.:

Prev. Agn. Ref.:

District: All

Agenda Number:

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The Policy will ensure consistency and continuity in debt management decisions, demonstrate the County's commitment to long term financial planning objectives and ensure debt management decisions are viewed positively by rating agencies, the investment community and taxpayers.

The Policy will govern all aspects of County debt including Conduit Financing, Land Secured Financing and General Fund obligated debt. Included in the Policy are guidelines for Alternative Financing Products that are available to the County. The Policy takes a conservative approach to these products to safeguard the County's financial position. This section will be updated as new products become available to the County.

The Policy also addresses the make up and function of the County's Debt Advisory Committee and stresses the importance of the County's on-going legal obligation of disclosing material events to the investment community.

The Policy has been reviewed by all three rating agencies.

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Policy:

The County of Riverside (the "County") has created this debt management policy (the "Policy") to ensure the financial stability of the County, reduce the County's cost of borrowing and protect the County's credit quality through proper debt management. This Policy applies to all direct County Debt, Conduit Financing and Land Secured Financing.

I. Definitions

- A. The term "Bond(s)" shall mean all legally available financing methods to the County, including General Obligation Bonds, long-term lease obligations entered into by the County (i.e. Certificates of Participation, Revenue Bonds, County's lease line of credit etc.), and short-term notes sold in the capital markets (i.e., TRANs, Teeter, etc).
- B. The term "Debt" shall mean (i) General Obligation Bonds issued by the County, (ii) long-term lease obligations entered into by the County, (iii) short-term notes sold in the capital markets, and/or (iv) Capital Leases above \$5,000,000.
- C. The term "Debt Service" shall mean (i) the repayment of General Obligation Bonds, (ii) lease payments on long-term lease obligations and/or (iii) short-term notes sold in the capital markets.
- D. The term "Discretionary Revenue" shall mean revenue received by the County during a fiscal year where the Board of Supervisors has sole discretion on the budgeting and expending of those revenues. Discretionary Revenues include, but are not limited to, property tax, sales tax receipts, motor vehicle in-lieu tax, interest earnings, franchise fees, and certain fines and penalties.
- E. The term "Conduit Financing" shall mean Debt issued by the County to finance a project to be used by a third party, usually a corporation engaged in private enterprise. The security of such Debt is the credit of the private user.

II. County Debt Policy

- A. Long-term Debt shall not be used to finance ongoing operational costs.

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- B. When possible, the County shall pursue alternative sources of funding, such as pay-as-you-go or grant funding, in order to minimize the level of direct debt.
- C. Whenever possible, the County shall use special assessment, revenue, or other self-supporting Debt instead of General Fund obligated Debt.
- D. Long-term, general fund obligated Debt will be incurred, when necessary, to acquire land or fixed assets, based upon the priority of the project, and the ability of the County to pay. This Debt shall be limited to those capital improvements that cannot be financed from current revenues. The project should be integrated with the County's long-term financial plan and Capital Improvement Program.
- E. Any Debt issued shall not have a maturity date beyond the useful life of the asset being acquired or constructed by the Debt proceeds.
- F. The County shall establish an affordable debt level in order to preserve credit quality and ensure sufficient revenue is available to pay annual Debt Service. As such, aggregate Debt Service, excluding self-supporting Debt, should not exceed 7% of General Fund discretionary revenue, and will not exceed 10% without Board of Supervisor approval. The debt level will be recalculated at the time of a new Bond issue. The Board of Supervisors will be notified if any Bonds to be issued cause the debt level to exceed the 7% threshold. The debt level will be calculated by comparing 7% of discretionary revenue to the aggregate Debt Service, excluding self-supporting Debt.
- G. The County will use its best efforts to maintain a variable rate debt ratio in an amount not to exceed 20 percent of the total outstanding Debt, excluding variable rate Debt that is hedged with cash, cash equivalent or a fixed-rate swap.
- H. The County shall review outstanding Debt and initiate fixed-rate refundings, or alternative financing products, when there is either an economic benefit or non-economic benefit to the County's financial or operating position. Net present value savings (calculated according to industry standards) from a fixed-rate refunding should be at least 3% of the refunded Bonds. Net present value savings from use of an alternative financing product should be at least 5% of the refunded Bonds. Refunding Debt shall not extend the maturity beyond the original Debt being refunded without compelling justification.

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- I. The County Executive Office, with review and concurrence of the Debt Advisory Committee, shall prepare and maintain a General County Financing Operation Manual, providing for the implementation of Section II of this Policy B-24.

III. Conduit Financing

- A. The County encourages the development of residential housing that is intended to provide quality, affordable single family housing for the first time home buyer within both the incorporated and unincorporated areas of the County.
- B. The County encourages the development of residential housing which will comply with both Federal and state requirements for low and moderate- income multi-family housing within the incorporated and unincorporated areas of the County.
- C. The County encourages commercial, retail, industrial and other development projects which will increase the employment base within the County in order to create a synergistic jobs/housing balance throughout the County and enhance the overall tax base of the County.
- D. The Economic Development Agency, with review and concurrence of the Debt Advisory Committee, shall prepare and maintain a Conduit Financing Operation Manual, providing for the implementation of Section III of this Policy B-24.

IV. Land Secured Financing

- A. The County encourages the development of commercial or industrial property that results in reciprocal value to the County (i.e., increased jobs, property or sales tax revenues, major public improvements). The County will consider the use of community facilities districts (CFDs) or special benefits assessment districts (ADs), as well as other financing methods to assist these types of development. When, in the County's opinion, the public facilities of a residential development represent a significant public benefit, public financing may be considered. Significant public benefit may be defined as a public facility having regional impact and/or benefit to that beyond the proposed development.
- B. Projects will comply with the requirements of the Improvement Act of 1911, the Municipal Improvement Act of 1913, the Improvement Bond Act of 1915, or the Community Facilities Act of 1982, and provisions of Board Policy B-12.

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- C. The County will maintain a separate Land Secured Financing policy. In the event of a conflict between this Policy B-24 and the Land Secured Financing policy, this Policy B-24 shall supersede and govern the Land Secured Financing policy.

V. Debt Advisory Committee

- A. The Debt Advisory Committee will review proposed county-related financings at least once prior to final approval by the Board of Supervisors. The DAC will act on items brought before it with either a "Review and File" or "Review and Recommend" action.
1. Those items requiring Review and File action:
 - a. Conduit financings that meet established guidelines.
 - b. Land Secured financings that meet established guidelines.
 - c. Letter of Credit substitutions with at least equal quality credit.
 2. Those items requiring Review and Recommendation action:
 - a. Refinancing of existing Debt.
 - b. Alternative financing products or structures.
 - c. New General Fund financings.
 - d. Restructuring of existing Debt.
 - e. Any financing with policy issues.
 - f. Any financing requiring a waiver of this policy or a deviation from any Operation Manual established by this Policy B-24.
 - g. Any issue the DAC considers important to bring to the attention of the Board of Supervisors.
- B. The County Executive Office will be responsible for preparing and distributing the agenda.
- C. The Debt Advisory Committee shall have 7 members and be chaired by the County Executive Office.
- D. The members of the Debt Advisory Committee ("Member") shall be comprised of the following:
1. County Treasurer

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2. County Auditor-Controller
3. County Executive Office (chair)
4. County Counsel
5. Economic Development Agency Executive Director
6. Community Facilities District/Assessment District Administrator
7. General Manager Chief Engineer, Flood Control and Water Conservation District.

- E. Members of the Debt Advisory Committee may designate staff to represent them. Members shall notify the committee chair, in writing, of the name and title of staff that are authorized to represent them. Upon written notification, the designee will be authorized to represent and vote on behalf of the Member.
- F. Debt Advisory Committee meetings shall be convened monthly or on the call of the chairperson.
- G. Each proposed financing brought before the Debt Advisory Committee will provide the Committee with (1) a detailed description of the type and structure of the financing, (2) full disclosure of the specific use of the proceeds, (3) a description of the public benefit to be provided by the proposal, (4) the principal parties involved in the financing, (5) anticipated sources of repayment, (6) an estimated Sources and Uses Statement, (7) any credit enhancements proposed, (8) the anticipated debt rating, if any, and (9) an estimated debt service schedule.
- H. When any vote by the Members that is not unanimous, a report outlining the dissenting opinion will be prepared by the Chairperson, in consultation with the dissenter(s), and accompany the Form 11 to the Board of Supervisors.
- I. The Debt Advisory Committee may retain a qualified Financial Advisor at their discretion, provided no County funds are used without the Board of Supervisors prior approval.

VI. Continuing Disclosure

- A. 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.

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- B. Each responsible County department, agency, district or authority will ensure that annual reports and material event notices are filed with the appropriate state and/or federal agencies in a timely manner.
- C. Each responsible County department, agency, district or authority will provide an annual certificate to the Debt Advisory Committee of its compliance or non-compliance with state and/or federal disclosure laws.
- D. Each responsible county department, agency, district or authority will notify the Debt Advisory Committee as soon as possible of any material event (but not limited to) listed in Rule 15c2-12 under the Securities Exchange Act of 1934.

VII. Alternative Financing Products

- A. Alternative financing products shall be used only for appropriate financial objectives, such as (1) to achieve greater debt savings by taking advantage of market conditions, (2) to better management of County assets and liabilities, (3) to reduce interest rate risk, and (4) to increase cash flow savings.
- B. The County shall not use an alternative financing product for speculative purposes.
- C. Board of Supervisors approval shall be required prior to the initiation of any alternative financing product transactions. Such approval may provide for the delegation of authority to actively manage the transaction.
- D. Interest Rate Swaps
 - 1. Each swap agreement shall include payment, term, security, collateral, default remedy, termination and other terms, conditions and provisions as the County Finance Director, in consultation with County Counsel and the County Treasurer, shall deem necessary or desirable.
 - 2. Counterparty Requirements: to minimize counterparty risk (1) the County may enter into swap agreements only with counterparties rated AAA by at least one rating agency, and (2) each counterparty shall have a minimum capitalization of \$150 million. Diversification of counterparties is the expressed goal of the County. Selection of counterparties to transactions will take this into account.

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3. Collateral Requirements: (1) the County will not provide collateral to secure its obligations under swap agreements, (2) if the credit rating of the counterparty falls below AAA by any rating agency, collateral shall be posted by the counterparty on a timely basis. Collateral, equaling at least 102 percent of the SWAP amount shall consist of cash or U.S. Government securities deposited with a third party trustee.
4. Termination Requirements: All swap agreements shall contain a provision granting the County the right to optionally terminate the agreement at any time over the term of the agreement. A termination payment to or from the County may be required at the time of termination. It is the intent of the County not to make a termination payment to a counterparty that does not meet its contractual obligations under the swap agreement. To the extent possible, the form of the interest rate swap agreement should incorporate the prevailing industry standards (the PSA Master Swap Agreement).
5. Any up-front payments or termination payments shall be used for one-time capital costs only, unless so directed by the Board of Supervisors.