SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA 829

FROM: Executive Office

SUBMITTAL DATE: November 5, 2015

SUBJECT: Board Policy Manual Update – Revisions to B-24; [$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Approves an amendment to Board Policy B-24 Debt Management Policy

BACKGROUND:

Summary

The Board Policy Manual is a guide for departments on matters that are not otherwise addressed in state codes, county ordinances, and resolutions by the Board of Supervisors. Amendments are submitted as necessary. Policy B-24 is being revised to bring it current and to correct or clarify language to eliminate ambiguity.

(Continued on page 2)

Ivan M. Chand
Deputy County Executive Officer

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost:	POLICY/CONSENT (per Exec. Office)
COST	$ N/A	$	$	$	Consent ☐ Policy X
NET COUNTY COST	$ N/A	$	$	$	

SOURCE OF FUNDS: N/A

Budget Adjustment: No

For Fiscal Year: 2015-16

C.E.O. RECOMMENDATION:

APPROVE

BY: **Paul McDonnell**

County Executive Office Signature

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Benoit, seconded by Supervisor Jeffries and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes:	Jeffries, Tavaglione, Washington, Benoit and Ashley
Nays:	None
Absent:	None
Date:	November 17, 2015
xc:	E.O., All Dept.

Kecia Harper-Ihem
Clerk of the Board
By: Deputy

Departmental Concurrence

☐ Positions Added ☐ Change Order

☐ A-30 ☐ 4/5 Vote

Prev. Agn. Ref.: 3.3 4/10/07 | **District:** All | **Agenda Number:** 3-5

BACKGROUND:
Summary (continued)

Broadly defined, the county's debt incorporates traditional loan obligations as well as other types of debt including unfunded pension legalities and employee leave balances. All three will be reflected on the balance sheet as of this year. The county's Debt Management Policy B-24 attempts to address the county's activities with respect to traditional external debt.

Revisions to the policy include:

1. A change was made to the language to eliminate the "not to exceed ten percent (10%)" general fund debt limitation. It now states that debt should not exceed 7% discretionary general fund revenues at all times.
2. The clarification of the definitions for alternative products and debt. The definition of debt now excludes short-term leases in the calculation of debt as they generally are paid from alternate sources over a short period and the focus of the policy is to manage long-term liabilities.
3. Alternative financings should now produce 10% savings of the refunded bonds. This was previously 5%. The higher threshold is meant to reflect the greater risk associated with alternate financing products.
4. A requirement to bring all lease lines of credit for equipment over $5 million to the Debt Advisory Committee was added.
5. The rating requirement was for counterparty agreements lowered to AA due to the limited number of AAA counterparties.

A complete policy is attached showing the changes.

All of the above changes have been approved by the Debt Advisory Committee.

Impact on Citizens and Businesses
This policy update is ensuring that the County is adhering to the most current standards which in turn will produce optimal savings for Riverside County residents.

SUPPLEMENTAL:
Additional Fiscal Information
Over the coming months the Executive Office will bring forward policy items to address the other components of the county's debt, such as its pension liability (currently embodied in Policy B-25), which is nominally the county's single largest and most expensive debt obligation. The subject of pre-funding the county's liability for leave balances merits a specific policy, not only to assure that full cost recovery from third party entities (State, federal and city contracts) takes place, but to address the potential impact of transferring employees with large leave balances to other departments.

COUNTY OF RIVERSIDE, CALIFORNIA
BOARD OF SUPERVISORS POLICY

Subject:	**Policy Number**	**Page**
DEBT MANAGEMENT POLICY	**B-24**	**1 of 7**

Policy:

The County of Riverside ("County") has created this debt management policy ("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 "Alternative Product" shall mean any legally available financing derivative first approved by the Board of Supervisors including, interest rate swaps, and private placements.

~~A.~~B. 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).

C. 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.

~~B.~~D. The term "Debt" shall mean (i) General Obligation Bonds issued by the County, (ii) long-term lease obligations entered into by the County, excluding equipment leases with terms less than 5 years (iii) short-term notes sold in the capital markets, and/or (iv) individual capital leases above $5,000,000.

E~~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.

F. 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.

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~~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.

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.~~E. Whenever possible, the County shall use special assessment, revenue, or other self-supporting debt instead of General Fund obligated debt.

~~D.~~F. 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.~~G. 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.~~H. 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 seven percent (7%) of General Fund discretionary revenue.~~, and will not exceed ten percent (10%) without the Board of Supervisors' 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 seven percent (7%) threshold. The debt level will be calculated by comparing seven percent (7%) of discretionary revenue to the aggregate debt service, excluding self-supporting debt (including Teeter and TRANs financings).

~~G.~~I. The County will use its best efforts to maintain a variable rate debt ratio in an amount not to exceed 20% of the total outstanding debt, excluding variable rate debt that is hedged with cash, cash equivalent or a fixed-rate swap.

~~H.~~J. 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 three percent (3%) of the refunded Bonds. Net present value savings from use of an alternative financing product should be at least ~~five~~ ten percent (10~~5~~%) of the refunded bonds. Refunding Debt shall not extend the maturity beyond the original debt being refunded without compelling justification.

~~I.~~K. 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.

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 (DAC) 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.
   d. Lease lines of credit for equipment financing totaling $5 million or more.

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 DAC shall have seven (7) members and be chaired by the County Executive Office.

D. The members of the DAC ("member") shall be comprised of the following:
   1. County Treasurer
   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 DAC 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. DAC meetings shall be convened monthly or on the call of the chairperson.

G. Each proposed financing brought before the DAC 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. Whenever any vote by the members is not unanimous, a report outlining the dissenting opinion will be prepared by the chairperson, in consultation with the dissenter(s), and will accompany the Form 11 to the Board of Supervisors.

I. The DAC 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.

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 DAC 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 DAC 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.

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 % 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.

Reference:

Minute Order 3.6 of 10/21/03
Minute Order 3.3 of 04/10/07
Minute Order X-X of 11/17/2015

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