



COUNTY OF HUMBOLDT

AGENDA ITEM NO.  
**C-10**

For the meeting of: June 27, 2017

Date: May 26, 2017  
To: Board of Supervisors  
From: Amy S. Nilsen, County Administrative Officer *AN*  
Subject: Debt Management Policy

RECOMMENDATION(S):

That the Board of Supervisors:

1. Rescind the Debt Management Policy adopted on February 23, 1993 (Exhibit A);
2. Approve the revised Debt Management Policy (Exhibit A) to establish guidelines to address capital improvement costs, short-term and long-term cash management and to create policies and procedures that minimize the county's debt service and issuance cost; and
3. Authorize the County Administrative Officer (CAO) to prepare and maintain a five-year capital program for consideration, prioritization and adoption by the Board of Supervisors as part of the county's budget process.

SOURCE OF FUNDING:

N/A

Prepared by Christopher Shaver

CAO Approval *[Signature]*

REVIEW:

Auditor \_\_\_\_\_ County Counsel *[Signature]* Human Resources \_\_\_\_\_ Other \_\_\_\_\_

TYPE OF ITEM:

- Consent
- Departmental
- Public Hearing
- Other \_\_\_\_\_

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT

Upon motion of Supervisor *Sundberg* Seconded by Supervisor *Fennell*  
 Ayes: *Sundberg, Fennell, Bass, Bohn*  
 Nays \_\_\_\_\_  
 Abstain \_\_\_\_\_  
 Absent: *Wilson*

PREVIOUS ACTION/REFERRAL:

Board Order No. D-17  
Meeting of: 2/23/1993

and carried by those members present, the Board hereby approves the recommended action contained in this Board report.

Dated: June 27, 2017  
By: *[Signature]*  
Kathy Hayes, Clerk of the Board

## DISCUSSION:

On February 3, 1993, the Board of Supervisors, adopted a county-wide Debt Management Policy (Exhibit A) as a guideline for planning and managing public debt. The original policy included a decision making process, intended as a flexible administrative guideline, with regards to the issuance of municipal debt with the overall goal of reducing future costs through debt review process.

The policy adopted in 1993 is outdated as there have been no revisions during the past 24 years. The CAO has conducted a review of the policy and has made modifications that will: establish effective guidelines for the use of debt financing to provide clear debt affordability standards; to promote objectivity in the decision making process; and, to facilitate the financing process by publishing the County's policies. Therefore, staff recommends rescinding the 1993 Debt Management Policy and the adoption of the Humboldt County Debt Management Policy attached hereto (Exhibit B). The updated policy will: establish guidelines for the use of debt financing to provide guidance to decision makers related to debt affordability standards; promote objectivity in the decision-making process; and, facilitate the actual financing process by establishing important policy decisions in advance.

The updated Humboldt County Debt Management Policy will enhance the county's ability to develop comprehensive capital planning through the development and maintenance of a five-year capital program. The CAO will develop a five-year capital program to allow for improved financial planning and management of capital projects. The five-year plan will allow staff the ability to strategically plan for large capital outlays while securing the most favorable form of debt to finance such projects. The following three guiding principles shall be used to determine a funding source for capital improvements:

1) Equity:

Whenever appropriate, the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government that benefits the entire community, such as the Office of Emergency Services, the project will be paid for with general purpose revenues or financed with debt. If, however, the project benefits specific users, such as a building permit facility, the revenues will be derived through user fees or charges, and assessments.

2) Effectiveness:

In selecting a source or sources for financing projects, the county will select one or more that effectively funds the total cost of the project. For example, funding a capital project, or the debt service on a project, with a user fee that does not provide sufficient funds to pay for the project is not an effective means of funding the project.

3) Efficiency:

If grants or current revenues are not available to fund a project, the county will generally select a financing technique that provides for the lowest total cost consistent with acceptable risk factors and principals of equity and effectiveness. These methods currently consist of county issued debt, special funding programs funded by state or federal agencies, or special pool financing.

The proposed policy also includes a debt advisory committee for the purpose of reviewing and recommending proposed debt financings prior to Board approval. The CAO or designee will chair the Debt Advisory Committee with the Treasurer-Tax Collector as vice chair and other committee members comprised of the Auditor-Controller, Assistant Auditor-Controller, Assistant County Administrative Officer and County Counsel (non-voting member).

FINANCIAL IMPACT:

Adoption of the Humboldt County Debt Management Policy establishes goals for the use of debt instruments and provides guidelines for the use of debt for financing county needs to maintain financial stability and minimize costs while maintaining affordable debt levels.

The Humboldt County Debt Management Policy supports the Board of Supervisors Strategic Framework through managing resources to ensure sustainability of services while targeting investments to generate long-term savings.

OTHER AGENCY INVOLVEMENT:

None

ALTERNATIVES TO STAFF RECOMMENDATIONS:

The Board may choose not to adopt said policy and not authorize the CAO to (1) prepare and maintain a five-year capital improvement plan; and (2) direct staff to consider alternatives or revisions to the Humboldt County Debt Management Policy; however, this is not recommended because other alternatives do not allow the county to strategically address the financing and planning of debt and capital projects.

ATTACHMENTS:

Exhibit A: 1993 Debt Management Policy

Exhibit B: Humboldt County Debt Management Policy

## **Exhibit A: 1993 Debt Management Policy**



AGENDA ITEM NO. D-17

# COUNTY OF HUMBOLDT

For meeting of: February 23, 1993

DATE: February 3, 1993  
TO: BOARD OF SUPERVISORS  
FROM: Stephen A. Strawn, Treasurer-Tax Collector  
SUBJECT: Debt Management Policy

**RECOMMENDATION:** The Board of Supervisors adopt the following Debt Management Policy, (exhibit "A"), as a guideline for planning and management of public debt.

**SUMMARY:** This policy statement provides general guidelines for the decision making process with regard to the issuance of municipal debt. This policy statement is intended to be a flexible administrative guideline for use by local government entities processing debt obligations through the County.

**DISCUSSION:** The goal of the debt management policy is to properly utilize debt as a major financing tool for the County. The use of debt, among other financing options, must provide general or specific benefits to its citizens in relation to the cost of repayment.

**FINANCIAL IMPACT:** No cost. This process will help to reduce future costs.

**OTHER AGENCY INVOLVEMENT:** As local agencies ask to involve the County, this process will review requests.

**ALTERNATIVES TO STAFF RECOMMENDATION:** The present process is unstructured and many financing proposals are not fully reviewed or reviewed only in their final stages.

Prepared by: Stephen A. Strawn CAO Approval: Chris Arnold

REVIEW: Auditor WFP County Counsel WBC Personnel \_\_\_\_\_ Risk Manager \_\_\_\_\_ Other \_\_\_\_\_

TYPE OF ITEM:  Consent pc: Auditor  
 Departmental County Counsel  
 Public Hearing Tax Collector  
 Other \_\_\_\_\_

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT  
Upon motion of Supervisor NEELY  
seconded by Supervisor SPARKS  
and unanimously carried by those members  
present, the Board hereby adopts the  
recommended action contained in this report.

Dated: FEB 23 1993  
CHRIS ARNOLD, Clerk of the Board  
by: Lora Frediani

PREVIOUS ACTION/REFERRAL:  
Board Order No. \_\_\_\_\_  
Meeting of: \_\_\_\_\_

LORA FREDIANI  
Assistant Clerk of the Board

(D-17)

0341

## **COUNTY OF HUMBOLDT DEBT MANAGEMENT POLICY**

The Board of Supervisors of Humboldt County adopted the following Debt Management Policy, (DMP), as a guideline for planning and management of public debt. This policy statement provides general guidelines for the decision making process with regard to the issuance of municipal debt. It should be emphasized that this policy statement is intended to be a flexible administrative guideline for use by local government entities processing debt obligations through the County. A thorough review of all available information and a detailed consideration of the facts is required for each debt issue.

A debt review process is hereby established to carry out this policy and to insure that prudent practices are followed and public expenses minimized in the issuance of municipal debt. Officers of this County have been identified on the basis of their statutory roles in advising, managing, and assisting local government entities with their finances. These Officers have personal expertise with regard to debt issuance and will use this expertise in the furtherance of the public interest.

### **GOAL OF THE DEBT MANAGEMENT POLICY**

The goal of the debt management policy is to properly utilize debt as a major financing tool for the County. The use of debt, among other financing options, must provide general or specific benefits to its citizens in relation to the cost of repayment levied upon those citizens.

### **IMPLEMENTING OBJECTIVES OF THE DEBT MANAGEMENT POLICIES**

#### **TO PROVIDE BENEFITS TO THE PUBLIC:**

Identify the benefits, cost savings and contribution to prudent use of debt financing. Invest cash to use municipal assets most effectively and to finance or refinance to maintain the lowest practicable cost.

#### **DEBT REPAYMENT:**

Establish debt payment schedules that accommodate the ability to pay and synchronize the cost with the enjoyment of the benefits or useful life.

## **CAPITAL OUTLAY:**

Identify the level of debt which the responsible agency is able to carry to use debt most effectively as one among several available financial tools. Closely coordinate with the responsible agency's capital and operating budget processes. Conduct a campaign for proper planning approaches.

## **DEBT OVERVIEW:**

Take into account on a continuing basis the impact of debt on the County's credit rating and total debt burden. Reports shall be prepared by the Auditor-Controller annually for all outstanding debt. The reports shall compare estimated amounts with actual amounts as appropriate.

## **DEBT FINANCE REVIEW PROCESS**

The County Debt Finance Review Process, (DRP), is established to review proposed and existing debt issues where the Board of Supervisors has complete or limited obligation for debt repayment. The department officials identified will advise the Board of Supervisors and departments of their recommendations. The officials may provide their recommendations separately or jointly to the Board of Supervisor through the County Administrative Officer.

## **FINANCING SUBJECT TO DEBT REVIEW PROCESS**

All types of financing which have a payback schedule greater than one year are subject to the DRP. These types of financing include, but are not limited to the following types:

1. General obligation bond issues ("G.O. Bonds")
2. Revenue bond issues
3. Lease-purchase agreements (not lease-rental) where title to an asset is to be obtained
4. Tax and Revenue Anticipation Notes (TRANS or TANS)
5. Housing bond issues - "mortgage bonds"
6. Conduit financing of any type
7. Redevelopment agency debt financing - tax allocation bonds
8. Mello-Roos district debt financing
9. Assessment bonds
10. Marks-Roos bonds for debt-pooling among agencies
11. Certificates of Participation ("COP's")

## DEBT REVIEW OFFICIALS

For debt issued under the authority of the Board of Supervisors or for special districts for which the Board of Supervisors serves as the governing body, County Debt:

Administrative Officer  
Auditor/Controller  
Treasurer  
County Counsel

For issuing agencies other than departments or special districts not governed by the Board of Supervisors, Non-County Debt:

Treasurer  
Auditor/Controller  
County Counsel

### COORDINATION PROCESS:

Each of these reviewing officials have authority and responsibilities to advise the Board of Supervisors in financial matters. The members may provide their review and comments jointly to expedite this process.

### **COUNTY DEBT:**

The County Treasurer will have the responsibility to coordinate the debt review process. The coordinator will meet with each of the Review Officials, or their designee. The meetings may be held jointly or separately whichever is appropriate in the circumstances. The coordinator shall provide appropriate forms and other documentation necessary in the circumstances to provide documentation of the Due Diligence required by this type of process.

### **NON COUNTY DEBT:**

The County Treasurer will coordinate the debt review process. The coordinator will meet with each of the Review Officials, or their designee. The meetings may be held jointly or separately whichever is appropriate in the circumstances. The coordinator shall provide appropriate forms and other documentation necessary in the circumstances to provide documentation of the Due Diligence required by this type of process.



When applicable to proposed issue, representatives of the proposing department will work with the review officials or their designees. The purpose is to assist in the preparation of design/project descriptions and cost estimates.

When applicable, representatives for the proposing department or agency will work with the review officials to assist in estimating and managing revenue sources, cash flows, establishing appropriate separation of funds, accounts, and other financial/accounting matters.

The reviewers shall jointly establish guidelines for the debt review process.



AGENDA ITEM NO. D-17

# COUNTY OF HUMBOLDT

For meeting of: February 23, 1993

DATE: February 3, 1993

TO: BOARD OF SUPERVISORS

FROM: Stephen A. Strawn, Treasurer-Tax Collector

SUBJECT: Debt Management Policy

**RECOMMENDATION:** The Board of Supervisors adopt the following Debt Management Policy, (exhibit "A"), as a guideline for planning and management of public debt.

**SUMMARY:** This policy statement provides general guidelines for the decision making process with regard to the issuance of municipal debt. This policy statement is intended to be a flexible administrative guideline for use by local government entities processing debt obligations through the County.

**DISCUSSION:** The goal of the debt management policy is to properly utilize debt as a major financing tool for the County. The use of debt, among other financing options, must provide general or specific benefits to its citizens in relation to the cost of repayment.

**FINANCIAL IMPACT:** No cost. This process will help to reduce future costs.

**OTHER AGENCY INVOLVEMENT:** As local agencies ask to involve the County, this process will review requests.

**ALTERNATIVES TO STAFF RECOMMENDATION:** The present process is unstructured and many financing proposals are not fully reviewed or reviewed only in their final stages.

Prepared by: Stephen A. Strawn ✓ CAO Approval: Chris Arnold

REVIEW: Auditor WPP County Counsel WBC Personnel \_\_\_\_\_ Risk Manager \_\_\_\_\_ Other \_\_\_\_\_

TYPE OF ITEM:  Consent  Departmental  Public Hearing  Other \_\_\_\_\_

pc: Auditor  
County Counsel  
Tax Collector

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT  
Upon motion of Supervisor NEELY  
seconded by Supervisor SPARKS  
and unanimously carried by those members  
present, the Board hereby adopts the  
recommended action contained in this report.

PREVIOUS ACTION/REFERRAL:  
Board Order No. \_\_\_\_\_  
Meeting of: \_\_\_\_\_

Dated: FEB 23 1993  
CHRIS ARNOLD, Clerk of the Board  
by: Lora Frediani  
LORA FREDIANI  
Assistant Clerk of the Board

(D-17)  
0341

"EXHIBIT A"

**COUNTY OF HUMBOLDT  
DEBT MANAGEMENT POLICY**

The Board of Supervisors of Humboldt County adopted the following Debt Management Policy, (DMP), as a guideline for planning and management of public debt. This policy statement provides general guidelines for the decision making process with regard to the issuance of municipal debt. It should be emphasized that this policy statement is intended to be a flexible administrative guideline for use by local government entities processing debt obligations through the County. A thorough review of all available information and a detailed consideration of the facts is required for each debt issue.

A debt review process is hereby established to carry out this policy and to insure that prudent practices are followed and public expenses minimized in the issuance of municipal debt. Officers of this County have been identified on the basis of their statutory roles in advising, managing, and assisting local government entities with their finances. These Officers have personal expertise with regard to debt issuance and will use this expertise in the furtherance of the public interest.

**GOAL OF THE DEBT MANAGEMENT POLICY**

The goal of the debt management policy is to properly utilize debt as a major financing tool for the County. The use of debt, among other financing options, must provide general or specific benefits to its citizens in relation to the cost of repayment levied upon those citizens.

**IMPLEMENTING OBJECTIVES OF THE DEBT MANAGEMENT POLICIES**

**TO PROVIDE BENEFITS TO THE PUBLIC:**

Identify the benefits, cost savings and contribution to prudent use of debt financing. Invest cash to use municipal assets most effectively and to finance or refinance to maintain the lowest practicable cost.

**DEBT REPAYMENT:**

Establish debt payment schedules that accommodate the ability to pay and synchronize the cost with the enjoyment of the benefits or useful life.

## **CAPITAL OUTLAY:**

Identify the level of debt which the responsible agency is able to carry to use debt most effectively as one among several available financial tools. Closely coordinate with the responsible agency's capital and operating budget processes. Conduct a campaign for proper planning approaches.

## **DEBT OVERVIEW:**

Take into account on a continuing basis the impact of debt on the County's credit rating and total debt burden. Reports shall be prepared by the Auditor-Controller annually for all outstanding debt. The reports shall compare estimated amounts with actual amounts as appropriate.

## **DEBT FINANCE REVIEW PROCESS**

The County Debt Finance Review Process, (DRP), is established to review proposed and existing debt issues where the Board of Supervisors has complete or limited obligation for debt repayment. The department officials identified will advise the Board of Supervisors and departments of their recommendations. The officials may provide their recommendations separately or jointly to the Board of Supervisor through the County Administrative Officer.

## **FINANCING SUBJECT TO DEBT REVIEW PROCESS**

All types of financing which have a payback schedule greater than one year are subject to the DRP. These types of financing include, but are not limited to the following types:

1. General obligation bond issues ("G.O. Bonds")
2. Revenue bond issues
3. Lease-purchase agreements (not lease-rental) where title to an asset is to be obtained
4. Tax and Revenue Anticipation Notes (TRANs or TANs)
5. Housing bond issues - "mortgage bonds"
6. Conduit financing of any type
7. Redevelopment agency debt financing - tax allocation bonds
8. Mello-Roos district debt financing
9. Assessment bonds
10. Marks-Roos bonds for debt-pooling among agencies
11. Certificates of Participation ("COP's")

## DEBT REVIEW OFFICIALS

For debt issued under the authority of the Board of Supervisors or for special districts for which the Board of Supervisors serves as the governing body, County Debt:

Administrative Officer  
Auditor/Controller  
Treasurer  
County Counsel

For issuing agencies other than departments or special districts not governed by the Board of Supervisors, Non-County Debt:

Treasurer  
Auditor/Controller  
County Counsel

### COORDINATION PROCESS:

Each of these reviewing officials have authority and responsibilities to advise the Board of Supervisors in financial matters. The members may provide their review and comments jointly to expedite this process.

### COUNTY DEBT:

The County Treasurer will have the responsibility to coordinate the debt review process. The coordinator will meet with each of the Review Officials, or their designee. The meetings may be held jointly or separately whichever is appropriate in the circumstances. The coordinator shall provide appropriate forms and other documentation necessary in the circumstances to provide documentation of the Due Diligence required by this type of process.

### NON COUNTY DEBT:

The County Treasurer will coordinate the debt review process. The coordinator will meet with each of the Review Officials, or their designee. The meetings may be held jointly or separately whichever is appropriate in the circumstances. The coordinator shall provide appropriate forms and other documentation necessary in the circumstances to provide documentation of the Due Diligence required by this type of process.

When applicable to proposed issue, representatives of the proposing department will work with the review officials or their designees. The purpose is to assist in the preparation of design/project descriptions and cost estimates.

When applicable, representatives for the proposing department or agency will work with the review officials to assist in estimating and managing revenue sources, cash flows, establishing appropriate separation of funds, accounts, and other financial/accounting matters.

The reviewers shall jointly establish guidelines for the debt review process.

## **Exhibit B: Humboldt County Debt Management Policy**

SECTION: <i>Financial Policies</i>	PAGE 1 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

**I. PURPOSE**

The purpose of this policy is to promote fiscal responsibility and long-term planning efforts to establish guidelines addressing capital improvement costs, short-term and long-term cash management and to create policies and procedures that minimize Humboldt County's (the county) debt service and issuance cost. The primary objective is to ensure prudent debt management practices to maintain financial stability, preserve public trust and minimize costs to taxpayers. In addition, the county shall observe the following goals:

- Provide benefits to the public by identifying benefits, cost savings and contribution to prudent use of debt financing;
- Long-term debt shall not be used to finance ongoing operational costs;
- Whenever 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;
- Whenever possible, the county shall use special assessment, revenue or other self-supporting debt instead of General Fund obligated debt;
- Any debt issued shall not have a maturity date beyond the useful life of the asset being acquired or constructed by the debt proceeds;
- 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.

The county's overriding goal in incurring long-term financial obligations is to respond to the evolving needs of its citizens while maintaining its fiscal responsibilities. This policy documents the county's goals for the use of debt instruments and provides guidelines for the use of debt for financing county needs.

Although long-term financing sometimes requires higher total expenditures rather than a cash purchase, it has the benefit of allowing immediate completion of the project so that those paying for the project are also those utilizing the project. Additionally, during times of rapidly increasing construction costs, the costs related to financing a project are sometimes less than construction cost increases caused by delaying the project until adequate cash is available.



SECTION: <i>Financial Policies</i>	PAGE 2 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

**II. POLICY**

The county's Debt Management Policy is designed to:

- Establish guidelines for the use of debt financing;
- Provide guidance to decision makers related to debt affordability standards;
- Promote objectivity in the decision-making process;
- Facilitate the actual financing process by establishing important policy decisions in advance.

An important goal for the county is to maximize credit ratings as issued by the primary bond rating services: Fitch, Moody's and Standard and Poor's. Lower credit ratings will severely limit the county's ability to obtain financing and increase the borrowing costs substantially once limited financing opportunities are attained.

The county will also seek to minimize borrowing costs by taking advantage of favorable economic conditions. Timing debt issuance to accommodate market interest rates and investor sentiment is an important means of minimizing the cost of debt and the tax burden on the citizens of the county. To accomplish this, the county will seek input on market conditions from financial consultants who closely monitor the financial markets.

The debt policies and practices of the county are, in every case, subject to and limited by applicable provisions of state and federal law. The county will adhere to the following legal requirements for the issuance of public debt:

- State law, which authorizes the issuance of the debt;
- Federal and state tax laws, which govern the eligibility of the debt for tax-exempt status;
- Federal and state securities laws governing disclosure, sale and trading of the debt.

SECTION: <i>Financial Policies</i>	PAGE 3 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

### III. COMPREHENSIVE CAPITAL PLANNING

**A. Planning.** The County Administrative Office shall prepare a five-year capital program for consideration, prioritization and adoption by the Board of Supervisors as part of the county's budget process. The capital budget, on an annual basis, shall identify revenue sources and expenditures for the coming current year and the next succeeding four fiscal years. The plan shall be updated annually.

**B. Funding of the Capital Improvement Program.** Whenever possible, the county will first attempt to fund capital projects with grants or state/federal funding, as part of its broader capital improvement plan. When such funds are insufficient, the county will use dedicated revenues to fund projects. If these are not available, the county will use excess surplus from the General Reserve debt financing, and general revenues.

The county shall be guided by three principles in selecting a funding source for capital improvements: equity, effectiveness and efficiency.

1) **Equity:**

Whenever appropriate, the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government that benefits the entire community, such as the Office of Emergency Services, the project will be paid for with general purpose revenues or financed with debt. If, however, the project benefits specific users, such as a building permit facility, the revenues will be derived through user fees or charges, and assessments.

2) **Effectiveness:**

In selecting a source or sources for financing projects, the county will select one or more that effectively funds the total cost of the project. For example, funding a capital project, or the debt service on a project, with a user fee that does not provide sufficient funds to pay for the project is not an effective means of funding the project.

3) **Efficiency:**

If grants or current revenues are not available to fund a project, the county will generally select a financing technique that provides for the lowest total cost consistent with acceptable risk factors and principals of equity and effectiveness. These methods currently consist of county issued debt, special funding programs funded by state or federal agencies, or special pool financing.

SECTION: <i>Financial Policies</i>	PAGE 4 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

**C. Maintenance, Replacement and Renewal/FLIP.** The county intends to set aside sufficient current revenues pursuant to the Board adopted Reserves Policy section outlining contributions to the Deferred Maintenance Fund, which establishes support costs for capital improvements to county owned facilities. Adopted on October 7, 2008, this policy states the Deferred Maintenance Fund shall receive an annual contribution of five percent of the total deferred maintenance costs.

The Deferred Maintenance Fund will be used to support costs for capital improvements to county owned facilities for the financing of ongoing maintenance needs and to provide periodic replacement and renewal consistent with its philosophy of keeping capital facilities and infrastructure systems in good repair and to maximize a capital asset's useful life.

**D. Debt Authorization.** No county debt issued for the purpose of funding capital projects may be authorized by the Board of Supervisors unless an appropriation has been included in the capital budget (Some forms of debt such as Private Activity Bonds for housing and Mello-Roos for infrastructure may not be appropriate for inclusion in the county capital improvement program).

#### IV. DEBT ADVISORY COMMITTEE

**E. Committee Structure.** All proposed debt financings shall be presented to the Debt Advisory Committee ("the Committee") for review and recommendation and must be approved by the Board of Supervisors. The committee, identified in their roles in advising, managing and assisting the county its finances, shall be comprised of the following:

- County Administrative Officer (Chair);
- Treasurer-Tax Collector (Vice-Chair);
- Auditor-Controller;
- Assistant Auditor-Controller;
- Assistant County Administrative Officer – Chief Budget Officer;
- County Counsel (non-voting).

County Counsel, a non-voting member of the Committee, will act as the Committee's legal counsel and provide legal advice. The County Administrative Officer ("CAO"), or his/her written designee, is a voting member and is responsible for setting and distributing the agenda and chairing the meetings.

SECTION: <i>Financial Policies</i>	PAGE 5 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

**F. Committee Purpose**

The Committee shall:

- Oversee the issuance of all county debt;
- Periodically review and evaluate existing county debt;
- Periodically review, revise and/or amend the existing county Debt Management Policy as needed (revisions must be approved by the Board of Supervisors);
- Review all internal financing requests and unsolicited financing proposals to ensure they comply with the Policy; document and justify any recommended exceptions;
- Make appropriate recommendations to the Board of Supervisors;
- Ensure all covenants and continuing disclosure requirements are met on each existing debt issue.

The committee shall examine specific statistical measures to determine debt capacity and relative debt position and compare these ratios to other counties, rating agency standards and Humboldt County's historical ratios to determine debt affordability. From Moody's Investors Service, the committee will evaluate the county against the following three debt ratios from the most recent available national medians for counties in the "AA" rating tier contained in Moody's Municipal Financial Ratio Analysis:

- 1) Direct net debt as a percentage of Assessed Valuation;
- 2) Overall net debt as a percentage of Assessed Valuation;
- 3) Assessed Valuation per-capita.

SECTION: <i>Financial Policies</i>	PAGE 6 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

**G. Meetings**

- 1) The County Administrative Officer will have the responsibility to coordinate the debt review process;
- 2) Regular meetings shall be held annually and may be scheduled more often as needed;
- 3) Notwithstanding the foregoing, no official act of the Committee shall be valid unless at least three (3) of the voting members concur therein, and at least four (4) voting members are in attendance;
- 4) When applicable, a representative from the proposing department will work with the Committee to assist in the preparation of design project/program descriptions, cost estimates, managing revenue sources, cash flows, separation of funds if applicable, accounts and other accounting matters.

**H. Ethics and Conflict of Interest**

Committee members involved in the debt management program will not engage in any personal business activities that could conflict with proper and lawful execution of the debt management program, or which might impair their ability to make impartial decisions.

**V. DEBT MANAGEMENT**

**I. Debt Review and Recommendations**

- 1) Each proposed financing brought before the Committee will include a feasibility study that provides the following information on a "Proposed Financing" form (see Appendix B):
  - A detailed description of the type and structure of the financing, including any type of accompanying derivative or investment products;
  - Full disclosure of the specific use of the proceeds and justification for borrowing as opposed to "pay-as-you-go";
  - A description of the public benefit to be provided by the project or proposal;
  - The principal parties involved in the transaction;
  - Anticipated sources of repayment;

SECTION: <i>Financial Policies</i>	PAGE 7 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

- An estimated Sources and Uses statement;
  - Any credit enhancements proposed;
  - The anticipated debt rating, if any;
  - An estimated debt service schedule and how it compares to the asset life;
  - An analysis of the county's debt ratios after the completion of the financing, pursuant to established guidelines. Dissension: When any vote of the members is not unanimous, a report outlining the dissenting opinion(s) will be prepared by the Chair, in consultation with the dissenter(s); said report will accompany the recommendation made to the Board.
- 2) The Committee may retain a qualified financial advisor at their discretion, provided no county funds are expended without prior Board approval.

**J. Monitoring of Existing Debt**

It is the task of this committee to assess the county's ability to generate and repay debt. The committee will issue an annual report to the Board of Supervisors discussing the county's debt burden. This review will be an important element of the budget process and will include recommendations about the advisability of incurring additional debt when new debt is proposed.

SECTION: <i>Financial Policies</i>	PAGE 8 OF 10
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY DEBT MANAGEMENT POLICY
REVISION DATE:	

**K. Refinancing of Outstanding Debt**

The county may refinance outstanding debt under the following circumstances:

1) Debt Service Savings:

The county may refinance outstanding long-term debt when such refinancing allows the county to realize significant present value debt service savings (minimum present value savings shall be at least 3.00%) without lengthening the term of refinanced debt and without increasing debt service in any subsequent fiscal year. The county may also consider debt refinancing when a primary objective would be the elimination of restrictive covenants that limit county operations.

2) Defeasance:

The process that releases a borrower from the obligations associated with its debt through the substitution of collateral. The county may refinance outstanding debt via defeasance when an opportunity exists to take secure other loans with more attractive interest rates and lower annual debt service.

**L. Credit Ratings**

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 and achievement of county policy objectives. The county recognizes that external economic, natural or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the county is committed to ensuring that actions within its control are prudent. Accordingly, each proposal for additional debt will be analyzed for its impact on the county's credit rating. An underwriter or financial consultant may recommend obtaining a credit rating on a particular financing; the County Administrative Officer, or a designee of the Committee, is responsible for authorization to secure the services of one or more major credit rating agencies and maintaining relationships with the rating agencies that assign ratings to the county's various debt obligations.

The county's minimum rating requirement for its direct, long-term, debt obligations is a rating of "investment grade" or higher. If such a debt obligation cannot meet this requirement, based on its underlying credit strength, then credit enhancement shall be sought to ensure that an appropriate rating is achieved. Obligations whose ratings would fall below the minimum rating requirement may be issued without a rating, if credit enhancement is unavailable or if the Committee determines that the benefit of credit enhancement is not cost effective.

**M. Financial Disclosure**

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To assure clear, comprehensive, and accurate financial information, the county is committed to meeting secondary disclosure requirements on a timely and comprehensive basis, cooperating fully with rating agencies, institutional and individual investors, county departments and agencies, other levels of government and the general public.

Official statements accompanying debt issues, financial reports and continuous disclosure statements will meet, at a minimum, the standards articulated by the Government Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC) and the Generally Accepted Accounting Principles (GAAP).

**N. Credit Issuance Guidelines**

The county will conform to State statutes, Federal Tax and Securities Regulations and will issue debt at levels consistent with its creditworthiness objectives. When applicable, rating agency medians may be compared by using one or more of the following ratios:

- Debt per capita;
- Debt as a percent of taxable value;
- Debt service payments as a percent of current revenues and current expenditures;
- The level of overlapping net debt of all local taxing jurisdictions.

In assessing affordability, the county shall also examine the direct costs and benefits of the proposed project. The decision of whether or not to assume new debt shall be based on these costs and benefits, current conditions of the municipal bond market, and the county's ability to "afford" new debt as determined by the aforementioned measurements. The county shall strive to achieve and/or maintain these standards at a low to moderate classification.

**VI. FINANCING OPTIONS**

**A. Purpose of Debt**

The county may issue debt for either new money or refunding purposes; there are many different types of financing instruments available. The county's selection among available financing instruments depends on legal constraints, investor demand, capital market activity and the type of project being financed. Appendix



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A contains a brief description of financing options, representative but not all-inclusive, available for consideration once the county decides debt issuance is the appropriate funding vehicle.

**B. Short-Term Debt**

The county may use short-term obligations (i.e. with final maturities of twelve months or less) as a cash management tool to provide interim financing and/or to bridge temporary cash flow deficits within a fiscal year. For example, the county may issue Tax and Revenue Anticipation Notes ("TRANS"). TRANS are appropriately used to fund cash flow deficits in a fiscal year. TRANS proceeds may be used and expended for any purpose, including current operating expense, capital expenditure, repayment of indebtedness, investment and reinvestment.

**C. Long-Term Debt**

Long-term obligations (i.e. with final maturities greater than thirteen months) are preferred for financing essential capital activities including the acquisition, construction and rehabilitation of major capital assets or to fund other special programs, such as self-insurance, worker's compensation insurance and unfunded pension liability. The county may also use long-term lease obligations to finance or refinance capital equipment or facilities. Prior to entering into any lease financing, the county will evaluate (1) the useful life of assets financed, (2) terms and conditions of the lease and (3) budgetary, debt capacity and tax implications.

For example, the county may issue Certificates of Participation ("COPs") to finance acquisition of equipment or construction of a facility. COPs are a form of lease obligation in which the county enters into an agreement to pay a fixed amount annually to a third party, usually a nonprofit agency or a private leasing company. COPs do not require voter approval, and they do not count towards a jurisdiction's debt volume limitations. Payments are subject to annual appropriations.

**APPENDIX A**  
**Definition of Terms**

**FINANCING OPTIONS**

**A. Non-Restrictive Debt**

Long-term obligations payable solely from specific pledge sources, in general, are not subject to a debt limitation. Examples of non-restrictive debt include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (Enterprise Funds), revenues generated from a project, special assessment districts, and tax collected from within a redevelopment project area in which the increase in assessed valuation has resulted from redevelopment. In addition, these long-term obligations do not constitute obligations with a claim against any other resources of the government, if the pledged sources are insufficient. Taxes levied in regards to the formation of special assessment districts and special taxes, however, must be approved by two-thirds of the voters within the district.

**B. General Obligation Bonds (GO Bonds)**

General Obligation Bonds, also known as "Full Faith and Credit" bonds, are secured by all of the general fund revenues of the county. They carry the county's commitment to increase taxes if necessary to repay the debt. Debt service on the bonds is provided from ad valorem taxes on real property within the county. GO Bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk. Additionally, they are usually limited by state law as to the amount and term.

**C. Revenue Bonds**

Revenue bonds may be issued by enterprises to finance capital projects. The enterprises do not have taxing authority but may sell bonds which are repaid through restricted revenues and user fees. When appropriate, self-supporting revenue bonds shall be issued before general obligation bonds. The revenues generated must be sufficient to cover the debt repayment and interest. As a planning target, estimated revenues will be required to be maintained at 150% of the maximum annual debt service. The county will make annual adjustments to any rate structure relating to revenues pledged to a bond issue, if necessary, to maintain a 150% coverage factor. The Revenue Bonds will not be secured by any pledge of ad valorem taxes. When capital projects are financed by issuing revenue bonds, the term of the bonds will not exceed the expected life of those projects. The issuance of revenue bonds requires Board of Supervisor approval but does not require voter approval.

**D. Certificates of Participation (COPs)**

The Certificate of Participation is a widely used type of debt instrument that allows the county to finance capital projects/public facilities/equipment where the COP holders are repaid principal and interest through revenues generated from the

project or by the county's agreement to lease the facilities or equipment. In order to facilitate the issuance of COP's, the county established a non-profit corporation, which has been in existence since December 1985. The non-profit is necessary to continue any past commitments and to aid in future COP financing. In addition, the Board of Supervisors appoints a Board of Directors on an annual basis; and, the Treasurer-Tax Collector serves as the staff liaison. Debt service on a COP is subject to annual appropriation by the county. For COPs issued in connection with the financing of certain equipment purchases or other assets, the interest and principal repayment is budgeted in each year's operating budget until the obligation is repaid. Any county-owned and operated multi-use facility improvement can be financed with a COP. Specific assets, lease or installment agreements, as well as operating revenues, may be pledged to guarantee payment of the Certificates. Upon repayment of the COP, title to the asset is transferred to the county. COPs do not constitute indebtedness under the State or county's constitutional debt limit and do not require voter approval.

**E. Special District Tax Bonds**

Special District Tax Bonds are limited obligations payable solely from special tax revenues and funds pledged under the fiscal agent agreement. Neither the "full faith and credit" of the county nor the State of California or any political subdivision is pledged to the payment of the bonds. Development-supported financings include Community Facilities Districts (CFDs) and Mello-Roos Bonds. Pursuant to law, the Board of Supervisors is authorized to establish a community facilities district or Mello-Roos district and act as the legislative body for the proposed district. The county may issue bonds and may levy and collect a special tax within such district to repay such indebtedness, if two-thirds of the registered voters in the district approve the tax.

**F. Joint Venture Arrangements with Other Governmental Agencies**

When a project serves the public interest beyond county boundaries, the county seeks out joint arrangements where other governmental bodies share the debt burden. Joint Venture debt is repaid through revenues generated by the project. The county will only be liable for its share of debt service, as specified by contract. All capital requests will explore the interaction and funding potential with other government agencies. If potential does exist, then the possibility for grants or cost sharing will be explored, quantified, and specific financial arrangements and liabilities negotiated.

**G. Special Assessment Bonds**

Special Assessment Districts are legally designated geographic areas located within the county, which, through the consent of the affected property owners, pay for basic infrastructure and public improvement to the area through a supplemental assessment. Bonds issued for financing projects of the district are repaid by special assessments of the property owners. This financing approach achieves the objective of tying the repayment of debt to those property owners who directly benefit from the improvements financed.

#### **H. Tax and Revenue Anticipation Notes (TRANs)**

The county may choose to issue Tax and Revenue Anticipation Notes to fund internal working capital cash flow needs, if such notes are judged to be prudent and advantageous to the county. TRANs are short-term notes that are issued, in part, to finance the county's Operating General Fund cash flow requirements during the fiscal year. The proceeds from the sale of the TRANs allow the county to cover periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures. County expenditures tend to occur in relatively level amounts throughout the year, while receipts follow an uneven pattern. As tax payments and other revenues are received, they are used in part to retire the TRANs. Before issuing such notes, cash flow projections will be prepared by the Auditor-Controller.

#### **I. Lines and Letters of Credit**

Where their use is judged by the Committee to be prudent and advantageous to the county, and with approval of the Board of Supervisors, the county has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the county with access to credit under terms and conditions as specified in such agreements, and/or to provide a liquidity facility or credit enhancement to the county's variable rate debt issues. Before entering into any such agreements, financing for such lines or letters of credit must be planned for and determined to be feasible.

#### **J. Bond Anticipation Notes**

Where their use is judged to be prudent and advantageous, the county may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, financing for such notes must be planned for and determined to be feasible.

#### **K. Multifamily And Single Family Housing Revenue Bonds**

Typically, Housing Revenue Bonds are development-supported bonds where debt service is paid out of the project's revenues and guaranteed by the developer and third-party insurance companies. The county may choose to issue these tax-exempt housing bonds to help finance housing projects and build low-income housing units (typically 20% of the total residential units) within the project. Neither the "full faith and credit" of the county nor the State of California or any political subdivision is pledged to the payment of credit of the bonds.

#### **L. Term Bonds and Serial Bonds**

Serial bonds are bonds maturing annually (or serially) in specified amounts. Term bonds are those where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years in a serial issue, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandatorily called or retired each year (called "sinters") to mirror a serial bond structure. The decision to use term or serial bonds is typically driven by bond marketing conditions. Specifically, if there is strong demand or weak demand for a particular bond maturity, the underwriter may combine two or more year's serial maturities as a term bond to take advantage of the strong demand or avoid the weak demand.

## Appendix B

### Proposed Financing

Complete Page 1 (below) and forward to CAO, Treasurer-Tax Collector, and Auditor Controller for analysis and referral to the Debt Advisory Committee			
Project Title:			
Date of Request:		Date Project Commences:	
Requesting Department:			
Budget Unit:		Contact Person(s):	
		Phone Number(s):	
		Fax Number(s):	
Amount Requested: \$		Email Address(es):	
		(Attach additional sheet if more than two contacts)	
Project Description:			
Source of Repayment:			
<u>Justification</u> (Detailed cost/benefit analysis, use of proceeds, justification for borrowing vs. "pay as you go", public benefit, grants or department funds contribution to project, usable life of project, etc.):			
Pending proposed financing (5 year horizon):			
Year Needed	Amount to be Financed	Repayment Source	Project Description
<u>Attach additional pages and/or supporting documentation as needed</u>			
When completed, send:	1 copy to CAO	1 copy to Treasurer-Tax Collector	1 copy to Auditor-Controller

<b>ANALYSIS</b>					
Amount of Financing:					
Type and Structure of Debt:					
Estimated Annual Debt Service:			General Fund Debt? YES <input type="checkbox"/> NO <input type="checkbox"/>		
Tax Exempt <input type="checkbox"/>		Taxable <input type="checkbox"/>		Term (years) <input type="checkbox"/>	
Estimated All-In True Interest Cost:					
Ratio of Annual Debt Service/GF Revenues:		1 Year:		5 Year Fwd Avg:	
Guideline is 5% - 7% (10% max)					
Estimated Credit Rating:			Credit Enhancement Recommended? YES <input type="checkbox"/> NO <input type="checkbox"/>		
(For information only)					
Overall Debt as % of Property Valuations (<2% recommended):					
Unreserved/Undesignated General Fund Balance as % of GF Revenues (8-10% recommended):					
Submit copies of analysis with supporting documentation to CAO for distribution to all Committee members.					
<u>Debt Advisory Committee Recommendation:</u>					
Vote Count:	APPROVE <input type="checkbox"/>	MODIFY <input type="checkbox"/>	DENY <input type="checkbox"/>	ABSTAIN <input type="checkbox"/>	ABSENT <input type="checkbox"/>
Comments:					
Dissenting Opinion(s) as applicable; attach additional documentation if needed:					
<u>Recommended Financing Team:</u>					
Bond Counsel:			Trustee:		
Underwriter:			Pricing Agent:		
Financial Advisor:			Other:		
Negotiated or Competitive Pricing Recommendation/Justification:					