County of Butte
Debt Management
Guidelines and Procedures

COUNTY OF BUTTE
DEBT MANAGEMENT GUIDELINES AND PROCEDURES
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OBJECTIVES

The objective of the Debt Management Guidelines and Procedures (DMGP) is to establish a method to address long-term capital improvement costs, short-term and long-term cash management strategies, the creation of guidelines and procedures that minimize Butte County's (County) debt service and issuance costs, provide for the highest practical credit rating, and maintain full and complete financial disclosure and reporting.

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. The DMGP documents the County's goals for the use of debt instruments and provides guidelines for the use of debt for financing County needs.

An important goal of the DMGP is to maximize the County's credit ratings when issued by the primary bond rating agencies Fitch, Moody's and Standard and Poor's. By maintaining the highest practicable credit rating, the County can issue its debt at lower interest rates than entities with lower ratings.

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 Butte 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 California ("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

The term “Bonds,” as used in the DMGP, refer to a class of debt instruments that may have fixed, variable or floating interest rates, with terms of repayment from 90 days to 30 or 40 years, and provide a means for local government to finance projects and activities.

DEBT ADVISORY COMMITTEE

All debt issuance proposals, once analyzed and approved for escalation, are to be communicated to and reviewed by the Debt Advisory Committee (Committee). Each debt issuance proposal will be evaluated by comparing it with competing proposals on the basis of the benefits derived, the prioritized needs of the County, and limits of debt that can be prudently and legally absorbed. If the debt issuance requires voter approval, that process begins after the Board of Supervisors (Board) has given their approval for the debt issuance.

A. Committee Structure

The Committee shall have four (4) members:

- Chief Administrative Officer (Chair)
- County Treasurer (Vice-Chair)
- Budget Director
- County Auditor-Controller

County Counsel, or his/her designee, as needed, will act as the Committee’s legal counsel and provide legal advice. The CAO is responsible for setting and distributing the agenda and chairing the meetings.

B. Committee Purpose

The Committee shall:

- Review all financing requests to determine if they comply with the DMGP and justify any recommended exceptions
- Certify the DMGP was followed, if applicable. The Committee's certification of compliance with the DMGP will be presented to the Board by the Chief Administrative Officer (CAO).

No act of the Committee shall be valid unless at least three (3) of the members concur and at least three (3) members are in attendance.

C. Meetings

Regular meetings shall be held at least annually and may be scheduled more often, as needed. Any scheduled meeting may be cancelled or re-scheduled by the Chair or, in his/her absence, the Vice-Chair.

D. Debt Review

Each proposed financing brought before the Committee will include a feasibility study that provides the following information on a “Proposed Financing” form (see Appendix A):

- A detailed description of the type and structure of the financing
- 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
- 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
- An analysis demonstrating the completed project can be supported with ongoing cash flow

Revisions to the DMGP may be appropriate from time to time to address changing financial goals, emerging financial products and debt structures, and unique market opportunities. Exceptions and/or revisions to the DMGP can be made by the CAO, as necessary to keep aligned with industry best practices, and will be approved by the Board.

AUTHORITY AND RESPONSIBILITY

The CAO, with approval of the Board and as required by law, will coordinate the issuance of all long-term debt (debt with a final maturity of greater than thirteen (13) months) including issuance size, debt structuring, pledging of repayment sources, securing the professional services that are required to develop and implement the County's long-term debt program, and the method of sale. Relative to the County's long-term debt, the CAO shall be responsible for providing authorization to secure the services of one or more major credit rating agencies, maintaining relationships with the rating agencies that assign ratings to the County's various debt obligations, and for the filing and accuracy of disclosures and other bond related documents.

The Treasurer, with approval of the Board and in cooperation with the CAO and Auditor-Controller, will coordinate the issuance of all short-term debt (debt with a term of thirteen (13) months or less) including issuance size, debt structuring, pledging of repayment sources, selection of the financing team, including an underwriter or underwriting syndicate, and the method of sale. Relative to the County's short-term debt, the Treasurer shall also be responsible for providing authorization to secure the services of one or more major credit rating agencies, maintaining relationships with the rating agencies that assign ratings to the County's short-term debt obligations, and for the filing and accuracy of disclosures and other bond related documents.

The Auditor-Controller is responsible for providing accurate, audited financial statements and cash flow analysis used as a basis for disclosure.

County Counsel and the financing team will manage any legal activities that may arise with respect to issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the County may pursue a validation action to obtain judicial approval before the bonds are issued to avoid a situation where a bond transaction is controversial and gives rise to a reverse validation action and possible litigation. Should this or any other material situation arise, the Committee and/or the Board will be informed of action taken.

CREDIT ISSUANCE GUIDELINES

Although long-term financing usually requires higher total expenditures than a cash purchase, it has the benefit of allowing immediate completion of the project so 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.

The County will conform to State statutes, federal tax and securities regulations and the County Charter and will issue debt at levels consistent with its creditworthiness objectives. The County shall use an objective, analytical approach to determine whether it can afford to assume the new debt.

When analyzing the appropriateness of a debt issuance, the County shall compare generally accepted measures of affordability to the current values for the County. These measures shall include, but not be limited to:

- Overall Debt per Capita: This is the outstanding principal of overlapping debt per County resident
- Overall Debt as a Percentage of the Assessed Valuation: This is the outstanding principal of overlapping debt as a percentage of the assessed valuation

- Total Governmental Funds Debt Service as a Percentage of Total Governmental Funds Expenditures: This is the annual debt service (principal and interest) as a percentage of expenditures

Overall Debt is comprised of the County's direct debt burden and the debt levels of underlying and overlapping entities such as school districts, college districts, and cities within the County. The County's proportional share of the debt of other local governmental units which overlap it or underlie it is called the overlapping debt. Overlapping debt is generally apportioned based upon relative assessed value. While the County does not control debt issuance by other entities, it recognizes that its taxpayers share the overall debt burden.

A review of recent credit rating agency guidelines indicated the County should strive to maintain these debt statistics at the following levels:

Overall Debt/Capita	\$1,000 to \$2,000
Overall Debt/Property Valuations	6% or less
Total Governmental Funds Debt Service/ Total Governmental Expenditures	Less than 8%.

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.

CAPITAL PLANNING AND FINANCING SYSTEM FOR LONG-TERM DEBT

The capital planning process will prioritize projects and identify the funding needs, as the aggregate cost of desired capital projects generally exceeds available funds. Whenever possible, the County shall pursue “pay-as-you-go," including impact fees, special assessments, self-supporting revenue or grant funding, instead of general fund obligated debt. The debt management process will determine the availability of funds which can be raised legally and effectively through debt issuance, the totality of projects that can be accomplished, and when the projects will commence. Close coordination of capital planning and debt management will ensure that County citizens achieve maximum benefit from available capital funds and that the potential for inappropriate or avoidable spending will be minimized. This coordinated program will be referred to as the Capital Improvement Program (CIP).

The County shall maintain a system for analyzing and preparing a multi-year CIP, which will be considered and adopted by the Board concurrent with or in close proximity to the County's annual budget process. The CIP will focus on capital expenditures for facilities, roads and bridges.

The CIP shall contain comprehensive descriptions of each project, including funding sources and timing. The CIP shall ensure planned financings conform to the DMGP targets regarding:

- Magnitude and composition of the County's indebtedness
- Economic and fiscal resources of the County to bear such indebtedness

Affordability impacts of the CIP shall be evaluated in consultation with the various County departments. Such planning will consider a long-term needs approach so project priorities and future commitments of funds are clearly visible, providing a basis for management decisions and public comment.

A. Maintenance, Replacement and Renewal

Consistent with a philosophy of keeping its capital facilities and infrastructure systems in good repair and to maximize the useful life of capital assets, the County should set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal.

B. Asset Life

The County will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. County debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

C. Competing Projects

Competing projects requiring funds will be evaluated according to priorities established by the Board. The selection of projects will consider the projects' abilities to meet the County's priorities and the financial requirements of the projects. For each project, the following information is necessary to assess the feasibility of the project and its funding with long-term debt:

1. Nature of Project and Use of Funds

The scope and nature of the project, as well as the intended use of the debt proceeds, will be described.

2. Cost-Benefit Analysis of Project

The CAO will ensure a cost-benefit analysis is conducted for each proposed project financing. The benefits of a proposed project will be defined and, where appropriate, quantified in monetary terms. The sources and uses of funds will be identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues will be documented. The validity of the assumptions and the risk associated with the revenue streams will be assessed. The costs of the project will be estimated, with the basis of estimates documented and the risk associated with the estimates assessed.

The County will not assume tax-supported general-purpose debt without an objective analysis as to the community's ability to assume and support additional debt payments and operational costs.

If general fund debt, other than general obligation bonds (GO bonds) is proposed, the CAO will identify the repayment sources and evaluate continued repayment ability over the term of the loan.

3. Expenditure Plan and Sources of Debt Servicing

The CAO will ensure a detailed expenditure and repayment plan is developed for each project. The plan will include total estimated project costs, project funding sources, and debt service estimates and repayment sources. The plan will demonstrate timely matching of available funds to project expenditures and commencement of scheduled debt service. The basis of estimates for the project cost expenditure plan and any supporting revenue cash flow estimates will be documented and the risk associated with such revenue streams will be analyzed.

TYPES AND PURPOSES OF DEBT

The County may issue debt for either new money or refunding (refinancing) purposes; however, long-term debt shall never be used to fund operating costs. There are many different types of financing instruments available. The financing instrument(s) used by the County depend(s) on legal constraints, investor demand, capital market activity and the type of project being financed.

Long-term debt is preferred for financing essential capital activities, including the acquisition, construction and rehabilitation of major capital assets, but may also be used to fund other liabilities such as self-insurance, workers' compensation insurance and unfunded pension or benefit liability.

The County may issue GO bonds, which are bonds secured by either a pledge of the full faith and credit of the County and/or by a promise to levy taxes in an unlimited amount as necessary to pay debt service. Debt service on the bonds is provided from *ad valorem* taxes on real property within the County. Under Section 1(b)(2) of Article XIIIA of the State Constitution, any new indebtedness to be repaid from an *ad valorem* tax levied against real property must be approved by a two-thirds majority of those voting on the bond proposition. However, under Section 1(b)(3) of Article XIIIA of the State Constitution, school districts may authorize GO bonds if the bonds are approved by 55% of those voting on the proposition.

While GO bonds typically are the least expensive debt available to government entities (tax supported bonds are considered to be a lower risk), drawbacks include:

- Forecasting tax revenues for budgets can be difficult since property values can stagnate or fluctuate over the loan term
- Two-thirds voter approval (55% in the case of school bonds) is difficult to obtain
- The election process may be too time intensive and costly to pursue
- The use of GO funds is limited to real property acquisitions or improvements, potentially resulting in the need for additional financing to acquire necessary equipment and furniture for the property

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.

The County may issue Certificates of Participation (COPs) to finance the 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. Because they do not constitute indebtedness under the State constitutional debt limitation, COPs do not require voter approval and do not count towards a jurisdiction’s debt volume limitations. Payments are subject to annual appropriations.

The County may use short-term obligations as a cash management tool to provide interim financing, to bridge temporary cash flow deficits within a fiscal year, and/or to reduce or hedge interest rate costs.

The County often issues Tax and Revenue Anticipation Notes (TRANs), which are short-term notes issued, in part, to finance the County’s operating (General Fund) cash flow requirements during the fiscal year. Voter approval is not required. The proceeds from the sale of TRANs allow the County to cover periods of cash shortfalls resulting from a mismatch between the timing of revenues and the timing of expenditures. County expenditures tend to occur in relatively level amounts throughout the year while receipts follow an uneven pattern. Tax payments and other revenues are used to retire TRANs. TRANs proceeds may be used for any purpose, including current operating expenses, capital expenditures, repayment of indebtedness, investment and reinvestment. Pursuant to California Government Code Section 53821, the Treasurer and Auditor-Controller are responsible for making a recommendation to the CAO and Board for the issuance of TRANs.

Before issuing TRANs, cash flow projections will be prepared by the Auditor-Controller and reviewed by the Treasurer. The timing of the borrowing, the due date of the notes, and the timing, segregation, and mechanisms of funds for repayment will be components of the cash flow and cash management analysis performed by the County.

Below are brief descriptions of many of the financing options not discussed elsewhere in the DMGP:

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 short-term, interim construction financing. Before issuing such notes, takeout financing must be planned for and determined to be feasible (takeout financing is long-term financing replacing the short-term construction loan).

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.

Lines of Credit

Where its use is judged by the Committee to be prudent and advantageous to the County, the County has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines of credit that shall provide the County with access to credit under terms and conditions as specified. Before entering into any such agreements, takeout financing or other repayment sources for the lines of credit must be planned for and determined to be feasible.

Mello-Roos Bonds

Pursuant to law, the Board is authorized to establish a Community Facilities District (CFD), also known as a Mello-Roos District, and act as the legislative body for the proposed district. CFDs may be established to finance either public capital facilities or public services or both. Upon approval by two-thirds of the qualified electors within the district, the County may issue bonds and levy and collect a special tax within such district to repay the indebtedness.

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 revenue 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 approval, but does not require voter approval.

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.

Term Bonds, Serial Bonds, and Capital Appreciation Bonds (CABs)

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 bond issuance, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called sinking reserves) to mirror a serial bond structure. The funds paid into the sinking reserves each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption. Sinking reserves are preferred by investors since these funds provide the security of knowing that the issuer appropriately budgets and accounts for its expected future payments. Sinking reserves also ensure that the payment of funds at maturity does not overtax the issuer's resources at that time.

Serial bonds are bonds maturing annually (or serially) in specified amounts. CABs, also known as "zero-coupon bonds," are deeply discounted bonds that pay investors the face value of the bonds upon maturity. CABs will be utilized in certain cases to better manage a project's cash flow to the bond's debt service.

The decision to use term, serial, or CABs 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 years of serial maturities as a term bond to take advantage of the strong demand or avoid the weak demand.

METHODS OF ISSUANCE AND SALE

A. Methods of Sale

1. Long-Term Debt

Long-term debt issues are sold to an underwriter or underwriting syndicate either through a public offering or a private offering. An underwriter or underwriting syndicate purchases bonds from an issuer with the intent to resell the bonds to investors. An underwriting syndicate is a firm or a group of firms that will purchase all of the bonds from the issuer and sell them to investors. For all negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed. In a negotiated sale, the selected underwriter may also fulfill the role of financial advisor for the debt issuance. The following criteria will be considered in selecting an underwriter: Overall experience as a managing or co-managing underwriter; marketing philosophy and distribution; capability of marketing or underwriting bonds; satisfactory performance as underwriter for previous County financing(s); financial strength, as evidenced by the firm's current financial statement; experience of the public finance team assigned to the financing; resources to complete the financing; and the total overall cost and breakdown of the underwriter's discount. The selection of underwriters may be for an individual or series of financings or a specified time period. The selected method of sale will be that which is the most advantageous to the County, as determined by the CAO, in consultation with the Committee, in terms of lowest borrowing costs, net interest rate, most favorable terms in the financial structure used, market conditions, and/or prior experience. The Board must approve the process selected prior to the sale.

Public Offerings - Public Offerings can be executed through either a negotiated sale or a competitive sale.

a. Negotiated Sale

A negotiated sale is a sale of bonds whereby the terms and price are negotiated by the County through an exclusive agreement with a previously selected underwriter and/or underwriting syndicate. In many cases, County debt is issued via a negotiated process, which provides the County control over the financing structure, the issuance timing and flexibility of distribution. In addition, competitive bidding on bond pricing may be included within the negotiated terms.

b. Competitive Sale

In a competitive sale, competing underwriters deliver sealed bids to the County, at the time and place specified in the official notice of sale. The County selects the underwriter offering the best terms at the time. Bids will be awarded on a True Interest Cost (TIC) basis, providing other bidding requirements are satisfied. TIC is a method of calculating bids for new issues that takes into consideration certain costs of issuance and the value of money. In such instances where the CAO deems the bids received unsatisfactory, the CAO may enter into negotiations for sale of the securities or reject all bids. The notice of sale will be carefully constructed to ensure the best possible bid for the bonds, in light of existing market conditions and other prevailing factors.

Private Placement - When determined appropriate by the CAO, and recommended by the Committee, financing terms for specific borrowings may be negotiated directly with banks, financial institutions and federal government agencies such as the United States Department of Agriculture Office of Rural Development. Typically, such private offerings are carried out by the County to avoid the costs of a public offering; therefore, reducing the costs of borrowing. Lease or Lease/Purchase arrangements are a typical venue for private placement.

2. Short-Term Debt

a. Underwriter Selection

The Treasurer may select an underwriter through a negotiated arrangement determined to be advantageous to the County in the current market environment or through a competitive bidding process. It is typical that a negotiated sale will, however, use a competitive bid process when the notes go to market, thereby providing the lowest available pricing on a competitive basis.

b. Private Placement

Upon consideration of market conditions, and after recommendation by the Committee, the Treasurer may determine it is in the best interest of the County to negotiate directly with a bank or other financial institution for placement of a short-term note, such as TRANs.

B. Official Statement Disclosure Requirements

All debt issues will meet the disclosure requirements of the Securities and Exchange Commission (SEC) and other government agencies before and after the bond sales take place. The purpose of the SEC requirements is to deter fraud and manipulation in the municipal securities market. The disclosure documents, particularly the Official Statement (OS), in the case of Competitive and Negotiated Sales, will provide the potential investor with full and accurate information necessary to make prudent investment decisions. An OS is not provided when long-term debt issues are sold through private placement(s). Information in the OS generally includes the County government description, comprehensive annual financial data, tax base, current debt burden, history of tax collections, bond repayment, future borrowing plans, the source of funds for the proposed debt repayment and information specific to the bond issue. County Counsel is responsible for ensuring the disclosure of any material litigation or issues that may impact the County's fiscal condition or ability to repay debt. The Auditor-Controller, CAO, and Treasurer are responsible for validating the accuracy and completeness of financial disclosures.

SELECTION OF FINANCIAL CONSULTANTS AND SERVICE PROVIDERS

One of the first decisions to be made by the CAO and the Treasurer, in consultation with the Committee, is the selection of the initial members of the debt financing team, including bond counsel, a financial advisor and/or underwriter. The nature of the team members may depend upon several factors, including the type of debt being issued and procedural requirements for the type of debt.

Any consultant or service provider contracting with the County must meet the County's contract and insurance requirements. The County will maintain professional service agreements with qualified professionals related to the issuance and management of debt, including, but not limited to: bond counsel, disclosure counsel, underwriter's counsel, financial advisor(s), underwriter(s), trustee and paying agent, credit rating agencies, escrow agent, printer, insurer, and arbitrage and rebate tax consultant.

1. Bond Counsel

External bond counsel will be retained for all debt issues, except lease financings for capital equipment. Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the County, for which bond counsel is retained, will include a written opinion by bond counsel affirming the County is authorized to issue the debt, stating the County has met all State constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

2. Underwriter's Counsel

If the financing is to be sold on a negotiated basis, an underwriter's counsel will be retained. Underwriter's counsel's primary responsibility is to provide legal advice to the underwriter, prepare the purchase contract, the Preliminary Official Statement (POS) and the OS. Generally, the underwriter's counsel will also serve as the disclosure counsel and may also serve as bond counsel. Payments for underwriter's counsel will be authorized on a case-by-case basis, depending on the nature and complexity of the transaction and the needs expressed by the underwriter.

3. Financial Advisor

A financial advisor will be selected for all long-term debt transactions to be sold on a competitive basis. The County may select a financial advisor for bonds sold on a negotiated basis. The primary responsibilities of the financial advisor are to advise and assist on the structuring, call provision options, rating and issuance of debt, timing of issuance, and generally act as an independent financial consultant and economic market expert.

4. Trustee and Paying Agent

The CAO and the Treasurer shall periodically solicit for trustee and paying agent services from qualified commercial and trustee banks. The trustee and paying agent will be selected based on the cost of providing such services, along with other qualitative measurements. The CAO or Treasurer, as appropriate, shall recommend the trustee, paying agent, and the terms of the agreements to the Committee. The trustee/paying agent is responsible for carrying out the administrative functions that are required under the bond documents. These functions include, but are not limited to, establishing the accounts and holding the funds relating to bond issues, maintaining a list of the bondholders, and paying principle and interest on the debt.

Compensation for bond counsel, underwriter's counsel, financial advisors and other financial service providers will be as low as possible, given desired qualification levels, and consistent with industry standards. All costs and fees related to issuance of bonds will be paid out of bond proceeds.

TERM AND STRUCTURE OF COUNTY LONG-TERM DEBT

A. Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users, in order to achieve the lowest possible net cost and recapture credit capacity for future use.

B. Debt Service Schedules

The CAO will seek to structure debt with aggregate level principal and interest payments over the life of the debt. Backloading of debt service or use of CABs (delaying repayment of principal until the end of the financing term) will be considered only when:

- The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present
- Such structuring is beneficial to the County's aggregate overall amortization schedule
- Such structuring will allow debt service to more closely match revenues during the early years of the project's operation
- The structure has been fully considered and recommended for approval by the Debt Advisory Committee and the financial impact is fully disclosed to the Board of Supervisors

C. Use of Variable-Rate Securities

When appropriate, the Committee may recommend Board approval to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.

D. Debt Limitations

The CAO will ensure outstanding debt remains within the limits prescribed by State statute and at levels consistent with its creditworthiness, best practices, needs and affordability objectives. Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of non-restrictive debt are the financing or refinancing of projects by the issuance of debt instruments payable from restricted revenues or user fees (Enterprise Funds), revenues generated from a project, or special assessment districts. 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.

E. Debt Service Reserves

In situations where there is significant uncertainty about expected revenues, or if required by the underwriter, the CAO, upon Committee recommendation and Board approval, will increase the sizing of the bond issue to provide for the funding of a debt service reserve. The reserve is available to the trustee to make principal and interest payments to bondholders in the event other available funds are insufficient to do so and are often required as part of the financing structure. Alternatively, the purchase of a surety bond in lieu of a debt service reserve fund may be considered if it results in a lower overall cost to the County. GO bonds generally do not require a reserve fund.

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 DMGP 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.

The County's minimum rating requirement for its direct 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 the CAO, in consultation with the Committee, determines the benefit of credit enhancement is not cost effective. A lower rating standard may be accepted for indirect or conduit obligations, subject to the approval of the CAO.

The financing team will assess the probable rating of the proposed debt before its issuance. There are various considerations in determining the County's credit rating and its effect on pricing in the current municipal bond market. These include economic conditions related to the stability and reliability of sources for debt repayment, the County's reserve levels, debt history, current debt structure, the history of fiscal responsibility, and the County's management capabilities.

The use of credit enhancement may be considered if it reduces the overall costs of the proposed financing. For example, a Letter of Credit may be secured from a major bank to enhance the credit rating. This letter is an unconditional pledge of the bank's credit to guarantee principal and interest payments for a specific debt issuance, should the County be unable to meet its debt service obligation. Bond insurance is also a potential means of enhancing the bond's credit rating or marketability. However, both of these credit enhancement methods represent an added cost in terms of the bank's fee or the insurer's premium and must be evaluated.

INVESTMENT OF BOND PROCEEDS

The proceeds from the sale of bonds will be invested until used for the intended project in order to maximize utilization of public funds. The investments will be carefully placed to obtain the highest level of safety. The Butte County Treasurer's Statement of Investment policy and the bond indentures and/or trust agreements should be referred to for more details on objectives and criteria for investment of bond proceeds. Bond proceeds will be invested, at fair market value, by the Treasurer in a manner that minimizes any potential negative arbitrage over the life of the debt issue. Investments held by trustees shall be disclosed in the Treasurer's Investment Report. Documentation pertaining to all investments of bond proceeds will be maintained by the Treasurer and periodically provided to the CAO, who is responsible for reporting arbitrage and rebate compliance notices to trustees and/or the Internal Revenue Service, as delineated in the financing documents.

REFUNDING LONG-TERM DEBT

A. Call Options

The CAO will determine the call option, if any, the call protection period, and the call premium for each bond sale. A call option or optional redemption provision gives the County the right to prepay or retire debt prior to its stated maturity. This option may permit the County to achieve interest savings in the future through refunding of the bonds. Often the County must pay a higher interest rate as compensation to the buyer for the risk of having bonds called in the future. In addition, if a bond or debt is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issue:

- The call premium
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- The need for original issue discounts

B. Current and Advance Refunding

As defined for federal tax law purposes, the County may issue current or advance refunding bonds when advantageous, legally permissible, prudent, and when aggregate net present value savings (expressed as a percentage of the par amount of the refunding bonds) equal or exceed 3%. Refundings of current debt shall be made only if recommended by the CAO and the Committee, and approved by the Board. Refundings with negative savings will not be considered, unless there is a compelling public policy objective.

Periodic review of all outstanding debt will be undertaken to determine refunding opportunities. Within federal tax law constraints, a refunding will be considered if and when there is a net economic benefit or if it is imperative in order to modernize covenants essential to operations and management. A current refunding provides that all proceeds (aside from expenses and reserve fund, if required) are used to extinguish existing debt at a savings to the County in the overall repayment costs. Managers of existing projects may request refundings for the purpose of taking advantage of more favorable economic conditions and lower market interest rates, restructuring the principal and debt service payments, or eliminating burdensome covenants with bondholders. Advance refundings are used to refinance outstanding debt before the date the outstanding debt becomes due or callable. Proceeds of advance refunding bonds are placed into an escrow account with a fiduciary agent and used to pay interest and principal on the refunded bonds until final redemption at their maturity or call date.

The financial advantages of a refunding must outweigh the costs and risks of reissuing bonds. The request for refunding will be assessed with competing new capital projects requiring financing. In no event will the maturity date of the refunding issue exceed the original maturity date of the refunded debt.

Savings requirements for current or advance refunding undertaken to restructure debt may be waived at the recommendation of the CAO, in consultation with the Committee, with Board approval, upon a finding that such a restructuring is in the County's overall best financial interest.

C. Refunding Escrows

The County may seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. At the direction of the CAO and Treasurer, the County may choose to fund an escrow through the purchase of treasury securities on the open market when market conditions make such an option financially preferred. The Treasurer shall be responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

DERIVATIVES & CONDUIT FINANCINGS

A. Derivative Products

The County may choose to enter into contracts and financing agreements involving interest rate swaps (contracts that allow a debt issuer to "swap" the interest rate it currently pays on an outstanding debt issue), floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The County will consider the use of derivative products on a case-by-case basis and consistent with State statute and financial prudence.

Prior to considering any derivative agreement, a separate derivatives policy will be established by the CAO, in collaboration with the Committee, and approved by the Board. Before entering into such contracts or agreements, the CAO will review the risks and benefits of such financing techniques and the expected impacts on the County's long-term financial operations and credit ratings. The completed report shall be presented to the Committee for review before any recommendations are submitted to the Board for authorization and implementation.

B. Conduit Financings

Conduit financing is a financing in which the proceeds of the issue are loaned to a non-governmental borrower who then applies the proceeds for a project financing or, if permitted by federal tax law for a qualified 501(c)(3) bond for working capital purposes. The County may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the County's overall service and policy objectives. All such conduit financings must insulate the County completely from any credit risk or exposure and must first be approved by the CAO before being submitted to the Board for authorization and implementation. Separate guidelines and procedures will be established for public finance pertaining to the use of the Mello-Roos Community Facilities Act of 1982, the 1911, 1913 or 1915 Acts, the Landscaping and Lighting Act of 1972 or any other Act pertaining to the use of Land-Based Financing Districts, as a conduit financing mechanism.

GO Bonds, TRANs and other debt issued by School Districts and the Board of Education under the Education Code require that the Board adopt a resolution to issue the debt on behalf of the schools. This type of conduit financing is managed by the Treasurer, who invests the bond proceeds on behalf of the schools and who may also serve as trustee or paying agent for the schools' short-term debt issuance. The Treasurer is responsible for ensuring that initial disclosure of related County information for the Official Statement for each debt issuance is provided timely and accurately. The Treasurer is not responsible for meeting continuing disclosure or arbitrage/rebate reporting requirements on such debt issues, as these are the responsibilities of the issuer; however, care must be taken to ensure that investment parameters, as established in the bond documents, are adhered to and that arbitrage and rebate legal restrictions are met, including periodic reporting of interest earnings to the school issuing the debt.

ANNUAL AUDITED FINANCIAL STATEMENTS

The annual Comprehensive Annual Financial Report (CAFR) of the County shall describe all funds and fund balances established as part of any direct debt financing of the County. The CAFR may also contain a report detailing covenants contained in any direct offering of the County and whether or not such covenants have been satisfied. The Auditor-Controller is responsible for the accuracy and completeness of the CAFR.

FINANCIAL DISCLOSURE, MONITORING, AND RECORDKEEPING

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. Complete and accurate disclosure supports the taxable or tax exempt status of bonds issued by the County and provides transparency regarding County finances and operations.

The CAO, Treasurer, and Auditor-Controller, pursuant to their authority, shall be responsible for the following as they apply to County long-term and short-term debt issues:

1. Providing the trustees and/or dissemination agents ongoing disclosure information for filing with the Municipal Securities Rulemaking Board via the Electronic Municipal Markets Access (EMMA). The County may elect to utilize the services of a dissemination agent for continuing disclosure reporting; however, the responsibility for ensuring the reports are filed timely remains with the County.

2. Maintaining compliance with disclosure standards promulgated by State and Federal regulatory bodies.

3. Ensuring the CAFR and continuing disclosure statements meet (at a minimum) the standards articulated by the Government Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC), and Accounting Principles Generally Accepted in the United States (US GAAP).

4. Monitoring to ensure all covenants and annual continuing disclosure requirements are complied with, including requiring each County department, agency, district or authority to notify the CAO immediately upon the occurrence of any event, specified in Rule 15c2-12 under the Securities Exchange Act of 1934, which must be filed with

EMMA. Examples of such events are credit rating downgrades, major disasters, major litigation, default on existing debt, bankruptcy, etc. and for TRAN issuance, ensuring cash deficit requirements are met for each issuance, in order to meet arbitrage and rebate requirements and protect the tax exempt status of each issuance.

5. Providing an annual certification to the Board documenting the County's compliance or non-compliance with State and federal disclosure laws. This certification shall be tendered at the first meeting of the Board in April of each year.

6. Annually, applying the private business use, private payment or security, and the private loan financing tests to ensure the tax exempt bond issues are not issues of private activity bonds. Monitoring shall include:

(a) Reviewing the amount of existing private use of bond-financed facilities,

(b) Identifying any new sale, lease or license, management contract, or other arrangements involving the private use of a bond-financed facility, and

(c) Promptly consulting with bond counsel as to any possible private use of a bond-financed facility and any necessary remedial action. Generally, an issuer will not loan more than 5% of the proceeds of an issue to one or more nongovernmental persons. The issuer does not expect to allow and will not allow more than 10% of the sale proceeds and investment proceeds of the issue or of the bond-financed facility to be privately used directly or indirectly by any nongovernmental person in any trade or business, other than as a member of the general public. For purposes of the preceding sentence, "10%" is reduced to "5%" for nongovernmental use of any facility financed or refinanced from the proceeds of an issue which are disproportionate to or not related to the governmental purposes of the issue. Absent an opinion of counsel a nongovernmental person is treated as "privately using" proceeds of the issue to the extent the nongovernmental person:

(i) borrows proceeds of the issue,

(ii) uses the bond-financed facility (e.g., as owner, lessee, service provider, operator or manager), or

(iii) acquires the output (or throughput) of the bond-financed facility.

7. Establishing and maintaining a system of monitoring, reporting and recordkeeping to meet the arbitrage rebate compliance requirements of the federal tax code. Arbitrage in the municipal bond market is the difference in the interest paid on the tax-exempt bonds and the interest earned by investing the bond proceeds in taxable securities. If interest rates on investments are higher than the interest on the bonds, there is positive arbitrage. The tax code requires that, to the extent the investment yield exceeds the bond yield, such excess must be rebated to the federal government, subject to the exceptions discussed in paragraph (c), below. The system shall include annually:

(a) Ensuring investments of proceeds comply with yield restrictions throughout their investment life;

(b) Tracking the investment earnings on bond proceeds since issuance and calculating any rebatable earnings (rebatable earnings are amounts earned from the investment of the gross bond proceeds at a yield in excess of the yield on the issue);

(c) Applying exceptions to the application of rebatable earnings for certain investments of bond proceeds [e.g., if investments were (i) during a temporary period, (ii) part of a reasonably required reserve or replacement fund, or (iii) as part of a minor portion (an amount not exceeding the lesser of 5% of the sale proceeds of the issue or $100,000)];

(d) Remitting any rebatable earnings to the Federal government no later than sixty (60) days after the end of every fifth (5th) bond year throughout the term of a bond issue. The CAO has the authority to contract with parties specializing in arbitrage/rebate calculations, if deemed necessary; and

(e) Satisfying the Arbitrage Rebate/Yield Reduction Filing Requirements-Form 8038-T or Form 8038-R, if applicable.

8. Ensuring debt service for all existing and anticipated debt is properly budgeted and appropriated for each fiscal year and documenting any specific revenue sources for repayment.

9. Initiating scheduled debt service payments.

10. Reconciling bank statements for money managed by trustees.

11. Validating all payments for construction and other debt related expenditures.

12. Retaining all material records related to bond financings, in a combination of paper and electronic forms, including, but not limited to:

(a) Records relating to the bond transaction, including documents prepared by bond counsel, audited financial statements, offering documents (including the official statements), minutes and resolutions authorizing the bond financings, appraisals, surveys, feasibility studies, documents related to government grants, publications/articles related to County bond financings, correspondence, any IRS correspondence or examinations, and arbitrage related documents and calculations;

(b) Documentation evidencing expenditure of bond proceeds;

(c) Documentation evidencing use of bond-financed property;

(d) Documentation of allocation of bond proceeds to issuance costs;

(e) Copies of construction and purchase contracts, requisitions, draw schedules, draw requests, invoices, bills, and cancelled checks related to bond proceeds spent for construction or purchase of bond financed facilities;

(f) Copies of all agreements, contracts, leases, subleases, ownership documentation, and entity formation documentation;

(g) Documentation evidencing all payments and security for the bonds;

(h) An asset list or schedule of all bond-financed facilities or equipment;

(i) Depreciation schedules for bond-financed depreciable property; and

(j) The tracking of purchases and sales of bond-financed assets.

13. Maintaining material records for as long as the bonds are outstanding plus three (3) years after the final redemption date of the bonds.

14. Ensuring all County staff involved with debt issuance will be provided pertinent educational resources, enrolled in training/educational seminars and classes, and trained by knowledgeable staff to ensure compliance with all applicable Federal and State laws and regulations.

ETHICS AND CONFLICT OF INTEREST

Officers and employees of the County involved in debt issuance and debt management will not engage in any personal business activities that might impair their ability to make impartial decisions, or that could conflict with proper and lawful execution of the County's debt issuance and post-issuance management of debt and these DMGP.

APPENDIX A

Proposed Financing

Complete Page 1 and forward to the Budget Director

Project Title: ____

Date of Request: ________________ Date Project Commences: ____________________

Requesting Department: ____________________

Budget Unit: ________

Amount Requested: $____________

Contact Person(s): ______________________________

Phone Number(s):______________________________

FAX Number(s):______________________________

Email Address(s): ______________________________

(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.)

____

____

____

____

____

____

____

<u>Pending proposed financings (5 year horizon)</u>:

Year Needed	Amt. to be Financed	Source of Repayment	Project Description

<u>Attach additional pages and/or supporting documentation as needed.</u>

ANALYSIS:

Amount of Financing: ______________________

Type and Structure of Debt: ________________________________

Estimated Annual Debt Service: ____________________________ General Fund Debt? YES □ NO □

Tax-Exempt □ Taxable □ Term (Yrs.) ______

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 □ NO □

Does a cash flow analysis demonstrate operational costs of the completed project can be supported? Yes No

(For information only):

Overall Debt as % of Property Valuations: __________ (≤6%recommended)

Unassigned General Fund Balance as % of GF Revenues: __________________
(8-10% recommended)

Debt Advisory Committee Recommendation:

Vote Count: APPROVE __ MODIFY __ DENY __ ABSTAIN __ ABSENT ___

Comments:

Dissenting Opinion(s) as applicable; attach additional documentation if needed:

Recommended Financing Team

Bond Counsel: ______________________________ Trustee: ______________________________

Underwriter: ______________________________ Pricing Agent: ______________________________

Financial Advisor: ______________________________ Other: ______________________________

Negotiated or Competitive Pricing Recommendation/Justification: ______________________________