COUNTY OF SAN MATEO DEBT MANAGEMENT POLICY

A. Introduction/Purpose

The purpose of the County of San Mateo Debt Management Policy (Policy) is to ensure sound and uniform practices for issuing and managing debt. The County of San Mateo (County) recognizes that it may need to enter into debt obligations to finance projects and to meet fiscal responsibilities. Accordingly, this Policy confirms the commitment of the Board of Supervisors (Board), County staff, advisors, and other decision makers to adhere to sound financial management practices.

This Debt Policy shall provide guidance for the issuance and management of all debt and lease financings of the County and related entities, together with credit, liquidity and other ancillary instruments and agreements secured or executed in connection with such transactions. While adherence to this Debt Policy is recommended in applicable circumstances, the County recognizes that changes in the capital markets, County programs and other unforeseen circumstances may produce situations that are not covered by the Debt Policy or require modifications or exceptions to achieve Debt Policy goals. In these cases, management flexibility is appropriate. The County may approve bonds and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation and approval of the County Manager or his designee, as circumstances warrant, and approval of such an issuance shall be conclusive evidence that the Board has determined such financing is necessary and desirable, and no additional evidence of such determination is required. The failure by the County to comply with any provision of this Debt Policy shall not affect the validity of any debt that is otherwise duly authorized and executed.

The Policy is also intended to comply with Government Code Section 8855(i), effective as of January 1, 2017.

B. Policy Objectives

The objectives of this Policy are as follows:

1. Establish a systematic and prudent approach to debt issuance and debt management;
2. Ensure access to debt capital markets and direct purchase investors (private placement providers) through prudent and flexible policies;
3. Define specific limits or acceptable ranges for general fund-support debt obligations;
4. Minimize debt service and issuance costs;
5. Maintain access to cost-effective borrowing;
6. Achieve the highest practical credit rating;

7. Ensure full and timely repayment of debt;

8. Maintain full and complete financial disclosure and reporting; and

9. Ensure compliance with applicable state and federals laws.

C. Scope

The County's Comprehensive Annual Financial Report includes legally separate entities for which the Board is financially accountable. This Policy informs the actions of these entities to ensure a uniform approach to the issuance of debt. This Policy establishes the parameters within which debt may be issued by the County of San Mateo, San Mateo County Joint Powers Financing Authority (upon concurrence by the Joint Powers Financing Authority), and the San Mateo County Flood Control District, or any related entity of the County for which the governing body consists of the same individuals as the Board of Supervisors of the County. Additionally, the Policy applies to debt issued by the County on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the County for multifamily housing or industrial development projects, or other projects.

Supplemental policies, tailored to specifics of certain types of financings, may be adopted by the Board in the future. These supplemental policies may address, but are not limited to, the general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

The debt policies and practices of the County are subject to and limited by applicable provisions of State and federal law and to prudent debt management principles.

D. Delegation of Authority

Government Code §53635.7 requires that all borrowing be placed on the Board Agenda and the agenda of any separate financing participant as a separate item of business. This Policy requires that the Board specifically authorize each financing proposal based on the recommendation of the CMO. Policy implementation and the day-to-day responsibility for the authority over the County's debt program will lie with the CMO with participation by County Counsel, and other departments as necessary. The CMO will be supported on an as-needed basis by appropriate County staff and a financial advisor. The services of other outside consultants may be retained as necessary.

This Policy will be reviewed and updated as necessary. Any changes to this Policy are subject to recommendation by the County Manager and the approval of the Board. The revised Policy will be provided to all County entities. The County recognizes that changes in capital markets, County programs, and other unforeseen circumstances may produce situations not covered by this Policy. In these cases, management flexibility is appropriate. The County may approve bonds and other related agreements the terms or provisions of which deviate from this Debt Policy, upon the recommendation and approval of the County Manager or his designee, as circumstances warrant, and approval of such an issuance shall be conclusive evidence that the Board has determined such financing is necessary and desirable, and no additional evidence of such determination is required. The failure by the County to comply with any provision of this

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E. Purposes for Which Debt may be Issued

The County may issue debt for the following purposes:

1. Long-term Borrowing

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund County operating costs but may fund one-time extraordinary expenses that are directly related to the design and construction of the project.

2. Short-term Borrowing

Short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax Revenue Anticipation Notes (TRANs). Short-term borrowing, such as commercial paper, may also be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing related costs, and one-time extraordinary expenses that are directly related to the design and construction of the project. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. For the purposes of this section, variable rate demand bonds and notes shall not be treated as short-term debt when issued with a maturity date longer than three years.

3. Refunding

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve County objectives including, but not limited to, objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three (3) percent of the principal amount of the refunded debt on a present value basis will be considered economically viable. In the case of refunding bonds issued for debt service savings within the permitted parameters, individual maturities should not be refunded unless their associated savings add at least $1 of savings to the total savings. This provision shall not apply if the issuer determines that it does not have a practical option or cost-effective option for structuring a partial refunding of any series of bonds or the refunding is necessary for other policy objectives. Approval of such funding shall be conclusive evidence that the Board has determined such financing is necessary and desirable, and no additional evidence of such determination is required.

F. Debt Issuance

1. Debt Capacity

The County will keep outstanding debt within the limits of applicable law, including the County's debt limit ordinance (Article 2.8, Chapter 2.81 as may be amended from time to time), and at levels consistent with its creditworthiness objectives. The County shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the County has limited capacity for debt service in its budget, and that each newly issued financing will obligate the County to a series of payments until the bonds are repaid.

2. Credit Quality

The County seeks to obtain and maintain the highest possible credit ratings for all categories of short- and long-term debt. The County will not issue bonds directly or on behalf of others that do not carry investment grade ratings.

3. Types of Debt That May Be Issued

a. Debt Repayment

The County shall structure its debt issues so that the maturity of the debt issue is consistent with or not more than 120% of the economic or useful life of the capital project to be financed.

b. Variable-rate Debt

To maintain a predictable debt service burden, the County will give preference to debt that carries a fixed interest rate.

The Board may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of securities. When making the determination to issue bonds in a variable rate mode, consideration will be given to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

c. Derivatives

The County will not employ derivatives, such as interest rate swaps, in its debt program. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk and thereby reducing borrowing costs. However, these products bear certain risks not associated with standard debt instruments.

d. Credit Enhancement

The County will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus the cost for each case. Bond insurance, stand-by letters of credit other credit enhancements should be used only when they clearly demonstrate a net present value savings to the County or required as a basis to obtain a surety bond in lieu of cash funding of a reserve fund.

e. Debt Service Reserve Fund

For long term debt and where appropriate for short-term debt, a Debt Service Reserve Fund may be utilized to achieve optimal pricing. If not required by the ratings agencies to achieve a desired credit rating and not found to be economically beneficial, a reserve fund is not required. Alternately, a Surety Bond may be evaluated and used if found to be economically advantageous or consistent with documentation.

G. Relationship of Debt to Capital Improvement Program and Budget

The County intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the County’s capital budget and applicable capital improvement plan, should one exist.

The County shall integrate its debt issuances with the goals of its capital improvements program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the County’s public purposes and to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund. Should the County incur capital improvement costs in connection with a financed project, it shall take reasonable steps to ensure that it retains the option to receive reimbursement for any amount expended from the proceeds of the bond sale.

H. Policy Goals Related to Planning Goals and Objectives

The County is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The County intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the County’s annual operating budget.

It is a policy goal of the County to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The County will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

I. Professional Assistance

The County shall utilize the services of independent financial advisors and legal counsel on all debt financings. The County Manager or his/her designee shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net County debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting, and with the concurrence of the County Counsel's Office, bond counsel and disclosure counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

J. Method of Sale

The County's goal is to protect the public's interest by structuring its financial obligations to balance considerations of affordability, potential cost recovery from third parties, long-term overlapping bond debt service capacity, and current and future interest cost through prudent practices. To obtain this goal, the County may use a competitive. negotiated, limited-competitive (hybrid), or private placement method of sale with input from the County's financial advisor. The appropriate method should be determined by the County on a case-by-case basis based on market conditions, prevailing practices, complexity and likely all-in cost of borrowing. Approval of such funding shall be conclusive evidence that the Board has determined such financing is necessary and desirable, and no additional evidence of such determination is required.

K. Debt Administration

1. Investment of Bond Proceeds

Investment of bond proceeds shall be consistent with federal tax requirements, and "permitted investments" shall be limited to those set forth in the County's Investment Policy as modified from time to time, or with requirements contained in the governing bond documents. The County may invest financed funds in the County Investment Pool, in any investments permitted by the County's Investment Policy, investments allowed by the credit rating agencies rating the County's bonds, or contained in the governing bond documents.

2. Use of Bond Proceeds

The County Manager's Office and other appropriate County personnel shall implement Internal Control procedures outlined below to ensure that the proceeds of the proposed debt issuance will be directed to the intended use:

a. Monitor the use of Bond proceeds, the use of Bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Bond-financed assets throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in applicable County resolutions and Tax Certificates.

b. Maintain records or contracts identifying the assets or portions of assets that are financed or refinanced with proceeds of each issue of Bonds and to document compliance with all covenants and restrictions set forth in applicable County resolutions and Tax Certificates. An applicable Record Retention Policy will be maintained by the appropriate County personnel that will include the County Manager's Office as it relates to construction and investment documentation and the County Counsel's Office as it relates to legal documentation;

c. Consult with Bond Counsel or other professional expert advisors in the review of any contracts or arrangements involving use of Bond-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable County resolutions and Tax Certificates;

3. Financial Disclosure

The County is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The County is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information as identified in its Continuing Disclosure and Compliance Procedures.