

COUNTY OF SHASTA		Number
ADMINISTRATIVE MANUAL		2-501
SECTION:	General Administration	Shasta County Debt Management Policy
INITIAL ISSUE DATE:	October 14, 2014	
LATEST REVISION DATE:	December 6, 2022	
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PURPOSE

The debt management policy is used to provide the general framework for planning and reviewing debt proposals and managing continuing disclosure requirements.

BACKGROUND

The Shasta County Board of Supervisors recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the County's debt position. Debt decisions should be the result of deliberative consideration of all factors involved.

POLICY

A. General Debt Policy

1. Except in extreme emergencies, long-term debt shall not be issued to finance ongoing operational costs.
2. When possible, the County shall pursue alternative sources of funding, such as pay as you go or grant funding to limit debt.
3. Whenever possible the County shall use self-supporting debt instead of General Fund obligated debt.
4. The aggregate annual general fund contribution to debt service, including certificates of participation but excluding self-supporting debt, shall not exceed 10% of annual General Fund discretionary revenue.
5. The County shall seek to maintain and, if possible, to improve its bond rating so borrowing costs are minimized and access to credit is preserved. It is imperative that the County demonstrate to rating agencies, investment bankers, creditors, and taxpayers that County officials are following a prescribed financial plan. The County will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the County's financial condition.
6. Every future bond issue proposal will be accompanied by an analysis demonstrating conformity to the debt policies adopted by County Board of Supervisors. The Deputy

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County Executive Officer and Auditor-Controller will review and comment on each bond issue proposal regarding conformance with existing debt and financial policies, and specific aspects of the proposed financing package and its impact on the County's creditworthiness.

7. The County recognizes that it is of the utmost importance that elected and appointed County officials, and all others associated with the issuance of County debt, not only avoid the reality of a conflict of interest, but the appearance thereof as well. County officials must conduct themselves in a fashion consistent with the best interests of the County and taxpayers. Elected and appointed County officials should avoid even the appearance of linkages between politics and public finance that can erode the confidence of taxpayers, ratepayers, and voters. This includes avoiding gratuities, and political contributions of more than nominal value from service providers and the disclosure of all possible conflicts of interest shall be provided in writing and filed with the County Clerk.

B. Taxpayer Equity

Shasta County's property taxpayers and citizens who benefit from projects financed by bonds should be the source of the related debt service funding. This principle of taxpayer equity should be a primary consideration in determining the type of projects selected for financing through bonds. Furthermore, the principle of taxpayer equity shall be applied for setting rates in determining net revenues for bond coverage ratios.

C. Uses of Debt Proceeds

1. Debt proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law. Acceptable uses of debt proceeds can be viewed as items which can be capitalized. Non-capital furnishings and supplies will not be financed from debt proceeds. Bond proceeds may be used to establish a debt service reserve. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bond proceeds.
2. Recognizing that bond issuance costs add to the total interest costs of financing; bond financing should not be used if the aggregate cost of projects to be financed by the bond issue does not exceed \$2,500,000.

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D. Decision Analysis

1. Whenever the County is contemplating a possible bond issue, information will be developed concerning the following four categories commonly used by rating agencies assessing the County's creditworthiness. The subcategories are representative of the types of items that may be considered. This information will be presented by the Deputy County Executive Officer and Auditor-Controller to the Board of Supervisors.

Debt Analysis

- Debt capacity analysis
- Purpose for which debt is issued
- Debt structure
- Debt burden
- Debt history and trends
- Adequacy of debt and capital planning
- Obsolescence of capital plant

Financial Analysis

- Stability, diversity, and growth rates of tax or other revenue sources
- Trend in assessed valuation and collections
- Current budget trends
- Appraisal of past revenue and expenditure trends
- History and long-term trends of revenues and expenditures
- Evidence of financial planning
- Adherence to generally accepted accounting principles
- Audit results
- Fund balance status and trends in operating and debt funds
- Financial monitoring systems and capabilities
- Cash flow projections

Governmental and Administrative Analysis

- Government organization structure
- Location of financial responsibilities and degree of control
- Adequacy of basic service provision
- Intergovernmental cooperation/ conflict and extent of duplication
- Overall County planning efforts

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Economic Analysis

- Geographic and location advantages
- Population and demographic characteristics
- Wealth indicators
- Housing characteristics
- Level of new construction
- Types of employment, industry, and occupation
- Evidence of industrial decline
- Trend of the economy

2. The County may use the services of qualified internal staff and outside advisors to assist in the analysis, evaluation, and decision process, including bond counsel and financial advisors. Recognizing the importance and value to the County's creditworthiness and marketability of the County's bonds, this policy is intended to ensure that potential debt complies with all laws and regulations, as well as sound financial principles.

E. Debt Planning

1. General obligation bond borrowing should be planned, and the details of the plan must be incorporated into a Shasta County Capital Improvement Plan.
2. General obligation bond issues should be included in the Capital Improvement Plan for at least two years prior to the year of the bond sale. The first inclusion should contain a general description of the project, its timing, and financial limits; subsequent inclusions should become increasingly specific.

F. Communication and Disclosure

1. Significant financial reports affecting or commenting on the County will be forwarded to the rating agencies. The Municipal Securities Rulemaking Board's EMMA website shall be used to disclose all material events within 10 days of occurrence including principal and interest payment delinquencies; non-payment related defaults; unscheduled draws on credit enhancements reflecting financial difficulties; substitution of credit or liquidity providers or their failure to perform; adverse tax opinions or events affecting the tax-exempt status of the security; modifications to the rights of the security holders; bond calls and tender offers; defeasances; release substitution or sale

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of property securing repayment of the securities; rating changes; incurrence of a financial obligation of the issuer or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the issuer or obligated person, any of which affect security holders, if material; default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the issuer or obligated person, any of which reflect financial difficulties; and bankruptcy, insolvency, or receivership. Each bond prospectus will follow the disclosure guidelines of the Government Finance Officers Association of the United States and Canada.

2. The County should attempt to develop coordinated communication processes with all other jurisdictions with which it shares a common property tax base concerning collective plans for future debt issues. Reciprocally-shared information on debt plans including amounts, purposes, timing, and types of debt will aid each jurisdiction in its debt planning decisions.
3. Prior to authorizing issuance of bonds with a term greater than 13 months the County shall disclose the information required by Government Code Section 5852.1 at a meeting open to the public.
4. No later than 21 days after issuing debt, the County shall submit the final sale report required by Government Code Section 8855(j) to the California Debt and Investment Advisory Commission (CDIAC).
5. No later than seven months after the end of any fiscal year during which the County issues debt and for every fiscal year thereafter, the County shall submit the annual report required by Government Code Section 8855(k) to the California Debt and Investment Advisory Commission (CDIAC).

G. General Obligation Bonds

1. Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

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2. Generally, bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The County will attempt to keep the average maturity of general obligation bonds at or below 12.5 years.
3. Whenever possible, the County will finance capital projects by using self-supporting revenue bonds. Revenue bonds assure the greatest degree of equity because those who benefit from a project and those who pay for a project are most closely matched.

H. Revenue Bonded Debt

1. It will be a long-term goal that any utility or enterprise will ensure future capital financing needs are met by using a combination of current operating revenues and revenue bond financing. Therefore, a goal is established that 15% of total project costs should come from operating funds of the utility or enterprise.
2. It is County policy that each utility or enterprise should provide adequate debt service coverage. A specific factor is established by County Board of Supervisors that projected operating revenues in excess of operating expenses less capital expenditures, depreciation and amortization in the operating fund should be at least 1.25 times the annual debt service costs. Below is an example of the debt coverage calculation.

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Debt Coverage Example:

Operating Revenues	\$ 3,903,000
Operating Investment Income	<u>80,000</u>
Total Operating Revenue	\$ 3,983,000
Operating Expenses	\$ 3,840,000
Less: Depreciation and Amortization	<u>310,000</u>
Subtotal	\$ 3,530,000
Net Revenue Available for	
Debt Service	\$ 453,000 (1•)
Principal	\$ 75,000
Interest	<u>37,500</u>
Total Debt Service	\$ 112,500 (2*)
Debt Coverage Ratio (1* divided by 2*)	4.03

I. Short Term Financing/Capital Lease Debt

1. Short-term financing or capital lease debt will be considered to finance certain equipment and rolling stock purchases when the aggregate cost of equipment to be purchased exceeds \$25,000. Adequate funds for the repayment of principal and interest must be included in the requesting department's approved budget.
2. The term of short-term financing will be limited to the usual useful life period of the vehicle or equipment, but in no case will exceed ten years.
3. Departments requesting capital financing must have a budget appropriation approved by the Board of Supervisors. Departments shall submit documentation for approved purchases to the Deputy County Executive Officer each year within ten days after the annual budget is adopted. The Deputy County Executive Officer will consolidate all requests and may solicit competitive or negotiated proposals for capital financing to insure the lowest possible interest costs.

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J. Bi-Annual Review

The Deputy County Executive Officer and the Auditor-Controller will schedule the Debt Policy for review and updating by the Board of Supervisors biennially.

RESPONSIBLE DEPARTMENTS

County Administrative Office
Auditor-Controller

REFERENCES

Administrative Update--12/06/2022
BOS Policy Resolution No. 2018-03 (Amended)
BOS Policy Resolution No. 2016-03 (Amended)
BOS Policy Resolution No. 2014-06 (Amended)