County Financial Policies

The County Financial Policies were initially adopted in 2003 and have been revised periodically to reflect changing requirements and county needs. The policies have promoted financial stability and long-term planning related to preparation and management of the County Budget. These policies include the Budget and Financial Policy, Middle Fork Project Revenue Budget and Financial Policy, Pension Funding Policy, Other Post Employment Benefit (OPEB) Policy, and Debt Management Policy.

The Budget and Financial Policy, as approved by the Board January 7, 2003, and revised June 7, 2011, is intended to guide the budget and long-term financial planning related to preparation and management of the County budget.

BUDGET AND FINANCIAL POLICY

1.0 PURPOSE:

To promote financial stability and long-term planning; to direct the County Executive Office in the development and management of the County Budget; and to provide a context to guide Board decisions during the budget process and throughout the fiscal year.

2.0 POLICIES:

2.1 General

2.1.1 On or before June 30 of each year, the County Executive Office shall prepare and submit to the Board of Supervisors (Board) a Proposed Budget for formal adoption on or before September 8 of each year, a notice shall be published in a newspaper of general circulation to announce the date on which the Board will conduct a public hearing on the recommended budget. At the conclusion of the hearing, and not later than October 2 of each year, the Board shall by resolution adopt the Final Budget.

2.1.1.1 The Budget will incorporate direction and input from the Board of Supervisors and County departments as to County operating and capital needs and priorities.

2.1.1.2 The Budget will address the financial status of the County and its key funds, including financial condition and trends, budgetary impacts, and liabilities and issues that may impact future County resources.

2.1.1.3 The Budget will be balanced and identify expected sources of revenue and other resources, and recommended program and capital expenditure and reserve uses for the next fiscal year.

2.1.1.3.1 A balanced budget is defined as available fund balance, reductions to obligated fund balance plus financing sources (revenue) as equal to financing uses (expenditures) plus increases to obligated fund balance for the year.

2.1.1.4 The Budget will include performance information for County programs. Program performance measures will be developed and used for long term planning and decision-making, including future resource allocation and in consideration of new or increased funding requests.

2.1.2 The County Executive Office shall periodically monitor and evaluate revenue and expenditures, identify significant variances from budget, and recommend actions to address shortfalls or unanticipated increases.

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Initially approved by Board of Supervisors 01/07/2003

2.1.3 The County Executive Office shall prepare and/or supervise the preparation of fiscal projections, capital financing plans, costing methodologies,[1] and other studies as will provide for current and future County obligations.

2.2 Revenues

2.2.1 Ongoing costs will be funded with ongoing revenues to promote fiscal stability, predictability, and sustainability, and to support long-range planning.

2.2.1.1 New or increased, ongoing revenues will meet current obligations and reduce reliance on one-time funding and fund balance carryover.

2.2.1.2 New programs will identify an ongoing funding source(s) not already obligated for current County operations or for the future costs of current operations.

2.2.2 Budget realistic and probable revenue estimates.

2.2.2.1 Budgeted revenue will not be based on high levels of anticipated growth or be contingent upon the passage of legislation or future actions by the Board of Supervisors.

2.2.2.2 Revenues that are volatile and/or sensitive to changes in the economy should be conservatively estimated.

2.2.2.3 State revenues in the Proposed Budget will be budgeted in accordance with the Governor's January Proposed Budget for the upcoming fiscal year.

2.2.3 Imposing or adjusting fees or other charges will be periodically evaluated for any service provided by the County where full cost recovery—including department and County administration—is not currently achieved. Budget estimates will not include fee increases unless the Board of Supervisors has approved the increase.

2.2.4 County administrative (A-87) costs will be charged to non-General Fund and subvented General Fund appropriations in accordance with the annual Countywide Cost Allocation Plan.

2.2.4.1 Departments will include estimated A-87 costs in their requested expenditure budgets.

2.2.4.2 A-87 reimbursements may be credited as general purpose General Fund revenues or applied to offset program costs as determined by the County Executive Office.

2.2.4.3 Some funds may be specifically excluded from paying part or all of the A-87 as determined by the County Executive Office. A-87 exclusions will be evaluated annually with the budget process to determine if some or all of those funds could be recouped by the General Fund.

2.2.5 The County Executive Office shall solicit input for revenue estimates from the Auditor-Controller, and other County departments as appropriate, for major tax and general-purpose revenues and for estimated carryover fund balance in preparation of the Proposed Budget.

2.2.6 Prior to applying for and accepting Federal or State grants, departments must identify current and future fiscal implications of either accepting or rejecting the grant. Areas of note are matching fund obligations, non-supplanting requirements, required continuation of the program after grant funds are exhausted, and if the program is consistent with the County's long-term goals and objectives. Before discretionary program costs are increased, departments should include recovery of department and county administrative costs of at least ten percent of direct costs for state and federal grants.

[1] The Auditor-Controller prepares the annual countywide cost allocation (A-87) plan.

2.3 Expenditures

2.3.1 Annual priority for General Fund funding will be given to capital improvements consistent with the County's Capital Facilities Financing Plan and Road Maintenance Master Plan.

2.3.2 Carryover fund balance will be used to fund one-time expenditures, reserves and contingencies and should not be used to finance ongoing operational costs.

2.3.3 New position requests will be considered through the budget process and not otherwise during the fiscal year unless urgent circumstances exist.

2.3.4 Partial or fully funded State and/or Federal programs, administered by the County will be implemented at the level of funding provided by the State or Federal government. County overmatches for departments with maintenance-of-effort requirements will be evaluated as part of the annual budget process.

2.3.5 All requests for new program funding should be accompanied with clear and concise statements of the program's mission, performance objectives and intended measurable outcomes.

2.3.6 Efficiency and economy in the delivery of County services are top priorities; departments are expected to make productivity improvements within their service delivery areas and reduce expenditures for discretionary programs and services.

2.3.6.1 County departments are encouraged to consolidate programs and organizations and consider alternatives for service delivery to reduce costs and the need for increased staffing.

2.3.6.2 In developing recommendations that may require operational reductions, departments should ensure that administrative and non-service areas have been reduced to the maximum extent possible before reducing direct services.

2.3.7 Automation and technology proposals must measurably demonstrate how cost savings will be achieved and/or how services will be improved, along with identifying potential sources of funding.

2.3.8 The County Executive Office will annually review rate changes for county internal service funds. Internal services funds are expected to make productivity improvements within their service delivery areas, reduce expenditures for discretionary programs and services, make administrative and non-service area reductions to the extent feasible, consolidate programs and organizations, and consider alternatives for service delivery before cutting direct services or proposing increased rates.

2.3.9 The General Fund's Appropriation for Contingencies should be budgeted at not less than 1.5% of the operating budget. Appropriations for Contingencies should be budgeted in all other funds, at not less than ½ of 1% of operating expenditures. In no event will Appropriation for Contingencies exceed the amount prescribed by law.

2.4 Capital Budgets

2.4.1 Capital Budgets will include a list of capital construction and road projects with brief descriptions; estimated expenditures to-date and identify the total project costs to-date.

2.4.2 Capital projects which are not encumbered or completed during the fiscal year, or multi-year projects, will be re-budgeted or carried over to the next fiscal year. Increased project costs for rebudgeted projects must be clearly identified with Final Budget adoption.

2.4.3 Capital projects will not be budgeted unless there are reasonable expectations that resources will be available to pay for them and a financing plan has been developed.

2.4.3.1 Where applicable, assessments, impact fees, user-based fees, and/or contributions should be used to fund capital projects. Projects benefiting other operating, internal services and enterprise funds shall be funded from those funds on a pro-rata basis.

2.4.3.2 Where alternative sources of financing are not available or sufficient for full funding, and the project is deemed critical for the provision of services or to meet mandated services levels, debt financing may be used in accordance with the County Debt Policy. Debt will not be used to finance on-going operational costs, including those incurred due to new facilities.

2.4.3.3 Planning and budgeting of projects shall include supporting documents that identify estimated ongoing savings or costs for the delivery of services, maintenance, and other operating costs.

2.4.4 Project reimbursements to the County Capital Projects Fund shall not exceed actual expenditures, plus 25% of any encumbered contract balances.

2.4.4.1 Facility Services may request advance funding for any project costing less than $100,000 when the project has begun.

2.4.4.2 An accounting of all costs shall be made by Facility Services to the requesting department following project completion.

2.4.5 Departments will prepare replacement schedules and develop and implement financing plans for major capital equipment.

2.5 Fund Balance Classification and Other Financial Policies

2.5.1 The General Fund's total Committed Fund Balance for General Reserve and Committed Fund Balance for Economic Uncertainties should be accumulated over time until a minimum of 5% of the annual operating budget reserve level is achieved (calculation is appropriations less capital outlay, contributions to reserves and operating contingencies times 5% equals combined Committed Fund Balance for General Reserve and Committed Fund Balance for Economic Uncertainties).

2.5.2 The Committed Fund Balance for Mandated Costs should be accumulated over time to a level that would provide for unfunded and mandated costs including those required for the medically indigent and public assistance. A balance should be accumulated over time until 5% of mandated costs are achieved. Mandated costs are defined as medically indigent, public assistance, and other non-discretionary costs.

2.5.3 The General Fund allocation to the Committed Fund Balance for Capital Asset Replacement will be equivalent to the annual equipment facility depreciation expense. Accumulated funds may be used in accordance with the Capital Facilities Financing Plan or other Board approved infrastructure plans.

2.5.4 Moderate increases to Non-General Fund Committed Fund Balance for Contingencies should be accumulated over time until a minimum 5% reserve level is achieved (calculation is appropriations less capital outlay, contributions to reserves and operating contingencies times 5%). Additional reserves should be assigned for equipment replacement and other identified needs. Smaller funds, or funds with uncertain or expected delays in reimbursement, may need to accumulate a larger reserve percentage for cash flow reasons.

2.5.5 The Accrued Loss Contingency for self-insurance funds shall be actuarially determined at least every other year. Reserves should be maintained at a confidence level of at least 80%.

2.5.6 Loans or transfers to or from internal services and enterprise funds shall be limited to meeting one-time funding requirements in County operating funds, and shall require repayment with interest.

2.5.7 Fund balances should be expended in the following order:

2.5.7.1 Restricted Fund Balance (when applicable)

2.5.7.2 Assigned Fund Balance

2.5.7.3 Committed Fund Balance

2.5.7.3.1 Refers to amounts that can only be used for specific purposes as imposed by formal action of the Board.

2.5.7.3.2 Formal action is defined by a majority vote of the Board or an affirmative vote of four members when required by the County Budget Act.

2.5.7.4 Unassigned Fund Balance (applies to the General Fund only)

MIDDLE FORK PROJECT REVENUE POLICY

1.0 PURPOSE:

To promote financial stability and long-term planning associated with the receipt and expenditure of the County's share of annual Middle Fork Project (MFP) net revenues (after all project operation costs, FERC obligations and reserves are met annually and distributed per the Middle Fork Project Finance Authority (MFPFA) Joint Powers Agreement and the MFPFA 2008 Bond Purchase Agreement); to establish an MFP Trust Fund which will be used to fund infrastructure projects throughout the county; and to establish an MFP Trust Fund Reserve to stabilize highly volatile fund receipts over time.

2.0 POLICIES:

2.1 General

2.1.1 The County's share of MFP net revenues, the annual "MFP Funds", are a new source of funds to the County that may begin in 2015 or later, depending on performance of the Middle Fork Project.

2.1.2 MFP Funds are highly volatile and unpredictable. In keeping with the County's Budget and Financial Policy mandate of estimating such funding sources conservatively, these funds will only be allocated after all MFP Funds have been trued-up and received as further described below.

2.1.3 An MFP Trust fund will be established to receive all payments of MFP Funds. The MFP Trust fund will be dedicated as a source of funds to capital and infrastructure, and will therefore be an assigned fund balance.

2.1.4 In order to provide some stability of MFP Fund availability, a MFP Trust Reserve will be established within the MFP Trust Fund.

2.2 Receipt of MFP Funds

2.2.1 The MFP is operated on a calendar-based fiscal year. Net revenues are distributed to the County based on MFPFA policies and at the discretion of its Board. Each fiscal year, the MFPFA Board will authorize up to three distributions over the operating year. The third

and final distribution will true up the total distributions for that fiscal year and will be based on audited financial statements of the MFPFA.

2.2.2 All MFP Funds received will be placed into the MFP Trust Fund.

2.3 MFP Trust Reserve

The MFP Trust will include an MFP Trust Reserve. The level of the MFP Trust Reserve will be set by and may be revised from time to time at the discretion of the County Board of Supervisors.

2.4 Appropriation of MFP Trust Funds

2.4.1 MFP Trust Funds will be appropriated through the annual budget process as a source of funds for current and future capital and infrastructure projects.

2.4.2 MFP Trust Funds available for appropriation shall be:

2.4.2.1 Funds that have been received from the MFPFA subject to the third and final distribution for that relevant MFP fiscal year; and further,

2.4.2.2 Any such funds which are available after the MFP Trust Reserve has been satisfied.

2.4.3 Bonding and Debt Issuance

2.4.3.1 MFP Trust Funds are not authorized for support of debt due to the unpredictability of actual revenues received over time.

2.4.3.2 Changes to this policy will require an action of the Board of Supervisors and will require further development of the MFP Trust Reserve in support of any debt.

PENSION FUNDING POLICY

1.0 Purpose:

To promote fiscal responsibility and long-term planning efforts by adhering to a Pension Funding policy that will assist the County in addressing ongoing pension funding requirements while allowing flexibility to respond to actuarial analyses and variable returns on investments due to market volatility.

2.0 Policy:

2.1 County Budget

2.1.1 The County Executive Office (CEO) & Payroll: With each budget cycle, at a minimum, fully fund the actuarially determined contributions (ADC) from the California Public Employees Retirement System (CalPERS) for both the Miscellaneous and Safety Pension Plans which serve as the basis for the employee[2], employer normal cost, and unfunded liability contributions.

2.1.2 As part of the actuarial analysis, CalPERS will be using acceptable actuarial cost methods, asset smoothing methods and amortization periods consistent with provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Reporting for Pensions*.

A. All components of the ADC will be collected through Payroll on a bi-weekly basis.

[2] The county pays the employee contribution for those employees eligible for the Employer Paid Member Contribution (EPMC) benefit. Payroll will deduct the employee contributions based on the rates set forth in the actuarial on a bi-weekly basis for employees who are not eligible for EPMC.

B. Pension funding in excess of the ADC may or may not be collected through Payroll based on financial considerations and contingent on the funding source identified by the CEO.

C. There are two options to pay CalPERS:

2.1.1.C.1 Deduct the Employee Contribution and multiply the Normal Cost and Unfunded Liability rates by eligible costs for each employee and send to CalPERS bi-weekly.

2.1.1.C.2 Pay the annual contribution for the Unfunded Liability as a lump sum. Should the county choose to pursue this option, the General Fund will pay the lump sum, and Payroll will continue to deduct the Employee Contribution and multiply the Normal Cost and Unfunded Liability rates by eligible costs. However, instead of sending the Unfunded Liability portion to CalPERS, Payroll will reimburse the General Fund up to the lump sum amount sent to CalPERS. Payroll will continue to send Employee and Normal Cost contributions to CalPERS bi-weekly.

D. At mid-year, CEO will reconcile the amounts sent to CalPERS with the minimum ADC amount required and, if necessary, adjust the amount collected through Payroll for the remainder of the year.

E. The County Executive Office will report back annually to the Board on the progress the County is making toward funding promised benefits.

2.2 IRS Section II5 Irrevocable Trust

2.2.1 In an effort to offset underperformance by the Pension Fund and/or future discount rate assumption adjustments, the County will set up and maintain an IRC Section 115 Irrevocable Trust.he ADC should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating costs over the employees' period of active service.

A. Any funding above and beyond the ADC (i.e. additional one-time lump-sum payments) that is approved by the Board of Supervisors (BOS) should be held in the Trust if not designated for immediate payment to CalPERS.

B. All transactions in and out of the Trust will be administered by the Finance Committee with approval from the (BOS).

C. The Finance Committee will determine the investment objective and risk tolerance.

D. On an ongoing basis, the Finance Committee will evaluate the investment performance, fees, service levels, and alternative options. In the event that the Finance Committee determines it is advantageous to make a change in the investment strategy or move funds to another qualified IRC Section 115 Irrevocable Trust, the Committee will make a recommendation to the BOS for approval.

E. Periodic pension fund reviews or updates that come before the BOS should include the funds held by the Trust.

F. Although the cash held in trust cannot be counted against the Net Pension Liability (NPL), the year-end balance should be reflected as a restricted asset and properly disclosed in the Comprehensive Annual Financial Report (CAFR).

2.3 Legislation

2.3.1 Continue to monitor and/or introduce legislation that would maximize the County's flexibility to manage/administer benefits and minimize the growth of future liabilities.

DEBT MANAGEMENT POLICY

I.0 DEBT POLICY PURPOSE

When used in this Policy, the word “debt” includes lease and other financing obligations.

The Placer County Debt Policy serves as a tool in managing the County’s financial affairs. The County recognizes the importance of making an ongoing commitment to maintain the facilities and infrastructure necessary to provide public services, but does not intend to rely upon long-term debt to defer its current obligations and unduly burden future Boards of Supervisors and taxpayers with current County responsibilities. Notwithstanding these concerns, debt financing is a powerful and necessary tool for undertaking major capital projects that cannot be reasonably financed on a pay-as-you go basis.

This policy is intended to comply with Section 8855 of the California Government Code and to assist the County in meeting the following objectives.

1.1 Maintain a prudent balance of debt and equity in meeting long-term capital needs in the form of pay-as-you-go financing. Debt and equity balance will be considered when planning the use of debt financing to address facility needs and other public infrastructure, and will ensure against incurring a level of fixed debt obligation that denies an appropriate level of future operating flexibility.

1.2 Maintain financial discipline, prudence and long term stability.

1.3 Ensure the County’s long-term ability to maintain an acceptable level of service to its citizenry.

1.4 Lower the cost of borrowing by maintaining high ratings and easy access to capital markets.

1.5 Establish and periodically review policies, goals, objectives and standards that will enable the County to maintain or improve its credit ratings.

1.6 Keep policy makers informed of the County’s policies, goals, and standards with regard to the issuance of debt.

1.7 Facilitate approval of debt issuance using predetermined, certain policies.

1.8 Incorporate debt management practices into the County’s planning and project management activities.

1.9 Support decisions based upon sound financial and management practices; reduce political influence in the debt issuance process.

2.0 SCOPE OF DEBT AND OTHER OBLIGATIONS GOVERNED BY THIS POLICY

This policy addresses a variety of long-term County obligations, such as, but not limited to:

2.1 voter-approved bonds which impose or increase taxes or assessments;

2.2 tax and revenue anticipation notes, pension obligation bonds, other post-employment benefit (OPEB) obligation bonds, lease revenue bonds and certificates of participation payable out of general resources; and

2.3 limited obligations payable out of project or system revenues or other restricted funds.

This policy includes all debt that must ultimately be approved by the Placer County Board of Supervisors. The Placer County Debt Management Policy acts as the debt management policy for the County of Placer and all related entities for whom the Board of Supervisors acts as legislative body. Except where otherwise provided, the

word "County" when used in this Policy shall be deemed to be a reference to the County and all such related entities.

This policy is not intended to address interfund borrowing; interagency borrowing; loans from the County Treasurer pursuant to the California State Constitution; or investment activities of the County Treasurer including but not limited to reverse repurchase agreements and securities lending.

Any approval of debt by the Board of Supervisors that is not consistent with this Debt Policy shall constitute a waiver of this Debt Policy.

3.0 USES OF COUNTY DEBT

The appropriate purposes for which the County would consider debt financing are the following.

3.1 **Generational equity:** Allows the cost of large capital investments to be spread appropriately between current taxpayers and service users, and future taxpayers and service users.

3.2 **Accelerating highest priority projects:** Capital improvements that are deemed to be of such a high priority to the public safety and welfare of the County that the cost of construction delay far exceeds the interest expense of a debt financing. Debt financing will be considered for high priority capital projects where the total project cost significantly exceeds available funding from the annual operating budget.

3.3 **Self-supporting obligations:** Debt where the financed project pays for itself through increased revenues or through the reduction of other County expenditures.

3.4 **Leveraging specific revenues:** Debt that offsets a mismatch in the timing of revenues and expenditures.

3.5 **Economic development:** Debt is appropriate when it provides a capital investment that generates the revenue necessary to support repayment, or when the County desires to allocate existing resources toward such development.

3.6 **Voter approval:** Projects or debt obligations approved by the voters are deemed by virtue of such approval to be appropriate for debt financing.

4.0 CAPITAL PLANNING POLICIES

The County will attempt to fund capital projects with grants, land use fees including impact fees, or other non-recurring resources. When such funds are insufficient the County will use appropriate special or enterprise revenues for capital projects that serve the purposes of such funds, or consider the development of new funding sources. If such funds are not available or practical the County may consider the use of general revenues, operating surplus, and/or unrestricted fund balance or capital reserves to fund capital projects. The County may consider leveraging these resources with bonds or certificates of participation.

5.0 BALANCING DEBT WITH COUNTY EQUITY

The County will minimize debt by deferring capital projects and by dedicating a portion of its resources towards pay-as-you-go capital investment. The County will continue to balance debt and equity by investing a portion of annual revenue in the capital program, providing for reserves and for depreciation. The County should avoid deferral of necessary capital improvements that result in greater costs associated with deferred maintenance or replacement.

6.0 RELATIONSHIP TO CAPITAL IMPROVEMENTS PROGRAM OR BUDGET, PLANNING GOALS AND OBJECTIVES

The County is committed to long-term financial planning, maintaining appropriate reserve 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 operations and capital budgets and the County's five-year capital improvement plan. This Policy is intended to ensure that debt levels and their related annual costs will advance the County's planning goals and objectives.

7.0 DEBT AFFORDABILITY TARGET LIMITATIONS

"Debt affordability" is considered in the policies established by the county, and financial and economic ratios recognized by rating agencies. Target ratios identified in this policy are guidelines and should be revisited as the County's capital program and financial resources change.

The principal affordability measures will be the following.

7.1 ***As a percent of budget*:** Consistent with market practices this ratio will be calculated as a percent of General Fund revenue, as a percent of General Fund revenue less General Fund intergovernmental revenue, and as a percent of operating expenditures. Placer County will keep ratios at or below the median for California counties.

7.2 ***Tax rate threshold:*** The County recognizes taxpayer sensitivity to tax rates. The County's Bond Screening Committee established in its "Rules and Procedures of the Assessment and Community Facilities Districts" limits for approving any such special district obligations where the aggregate tax would exceed 2% of assessed value. Bond issues achieving a level of community support sufficient to meet the 2/3rd-majority vote will be deemed to be an exception to the guidelines for financial and economic measures.

7.3 ***Rating agency ratios:*** The rating agencies, bond insurance companies and institutional investor analysts commonly rely on certain ratios to measure a jurisdiction's debt load. In addition to the ratios of debt as a percent of revenues and expenditures, the rating agencies employ debt as a percent of assessed valuation; debt as a percent of personal income; and debt per capita.

These three ratios are not direct measures of issuer debt affordability, however they provide useful benchmarks by which the County can compare itself to its peers and affect the way bond market participants view the County. The County's goal is to maintain such measures at levels that are at or below the average of comparable counties. Moody's Investors Services publishes debt measures for California Counties, which will be utilized as a source document for comparison purposes.

The County may determine that a particular improvement is of such high necessity to ensure the safety and welfare of County residents that it must incur obligations in excess of these thresholds. To the extent such thresholds are ever exceeded for such purposes, it is the intention of the County to avoid future occurrences of debt or other fixed obligations until such thresholds are restored.

8.0 DEBT ADMINISTRATION

Debt management will be the responsibility of the County Executive Officer (CEO) and the Treasurer Tax Collector as follows:

8.1 **Reviewing and recommending debt financing–CEO & Treasurer.** The CEO and Treasurer Tax Collector will be responsible for reviewing, analyzing and recommending new issue debt financing when appropriate and consistent with these policies. The County's Finance Committee will review proposed County debt financing proposals and make recommendations to the CEO and Board of Supervisors.

8.2 **Leading the process of issuance–CEO, Treasurer and County Counsel.** Departments will work together to select financial advisors, underwriters, bond counsel, disclosure counsel and other members of a financing team. Officials will prepare bond documentation including official statements, and will review them for material errors or omissions before such documents can be deemed final.

8.3 **Internal control procedures regarding use of debt proceeds; fiscal agent–Treasurer.** Whenever reasonability possible, proceeds of debt used to finance capital improvements will be held by a third-party trustee and the County will submit written requisitions for such proceeds. The Treasurer will execute each such requisition. The Treasurer will be responsible for selecting trustees and other fiscal agents associated with bond and certificate of participation issues. To the extent permitted by bond counsel, the rating agencies or any bond insurer, the Treasurer will serve as the County's fiscal agent on its debt transactions.

8.4 **Continuing annual disclosure–Treasurer, Auditor-Controller, Facility Services and CEO.** The Securities and Exchange Commission ("SEC") requires that underwriters obtain promises in writing from municipal debt issuers to provide specified financial and operating information on an annual basis. This promise for continuing annual disclosure is set forth in a separate agreement between the issuer and the underwriter who purchases the County's bonds. The County Executive Office will oversee the preparation of annual disclosure reports as required under federal law and regulations, and consistent with the continuing disclosure agreement pertaining to that financing. Such reports will be reviewed in the manner of initial official statements. Under continuing disclosure requirements the County is obligated to provide ongoing disclosure of material events, including those that are specifically enumerated in the agreement.

8.5 **Arbitrage administration–Treasurer.** The Treasurer is charged with responsibility for establishing and maintaining, either directly or through contract, a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues.

8.6 **Covenant Administration–CEO.** The CEO will establish and maintain a system for monitoring the various covenants and commitments established within the documentation of a bond issue, and ensuring that County staff or consultants take such actions as required to comply with the various covenants of a financing.

8.7 **Small lease-purchases–CEO.** No County Department, agency, or sub-unit will enter into a lease-purchase contract, or incur some other form of indebtedness, of more than $24,999 without the express approval of the Board of Supervisors.

8.8 **Investing Bond Proceeds–Treasurer.** The Treasurer is responsible for investing all bond or certificate of participation proceeds held by the County and directing the investment of all funds held by a trustee under an indenture or trust agreement. Investments will be consistent with those authorized by state and federal law.

9.0 BOND RATINGS

The County intends to maintain its General Fund bond ratings at A1 by Moody's Investors Service and A by Standard and Poor's Corporation. High bond ratings result in reduced borrowing costs, as well as provide a level of independent validation of the County's financial management. Notwithstanding the foregoing, the County recognizes that it may not seek ratings on all debt, as in the case of privately placed debt. Further, non-General Fund debt will be rated upon its underlying security which may result in lower level ratings. In these cases, the County will make determinations on the merit of issuing non-rated, or debt rated at a lower level on a case by case basis.

Since credit rating agencies typically take into account the following four economic and financial measures when evaluating credit quality, the County will keenly consider the impact of future debt on these measures:

9.1 **Economy and tax base**–These factors include residential wealth and income, population, and major employers. Rating agencies' review assessed valuation, both as an indicator of the economy as well

as a source of revenue, and taxable sales (particularly relevant for public safety revenues). These factors are the most difficult for the County to influence.

9.2 **Debt–**The various measures of indebtedness used by rating agencies have been discussed above. Rating agencies are increasingly reviewing debt management practices, and look favorably on the adoption of formal financial, budget and debt management policies and other management practices.

9.3 **Finances**–Fund balance and other measures of operating results, funded contingency reserves, and cash balances are analyzed by rating agencies, both as measures of financial flexibility and as indicators of financial management and control.

9.4 **Management–**While always the most difficult quality to assess, ratings reflect the judgment of the credit rating agency as to the strength of a county's management team.

10.0 LEASE OBLIGATIONS

Lease financing should be considered in the context of partnership and leveraging opportunities that involves other agencies or outside revenue sources. Situations may occur which require an additional level of analysis regarding the thresholds described above. There may be opportunities to convert existing lease payments made to private lessors, into lease-purchase payments for more permanent facilities (usually with an imbedded tax-exempt cost of funds). Under the latter mechanism the County would gain a long-term equity interest in the property, owning it outright at the end of the lease term.

Long-term investments in **lease-purchased facilities** should be considered in lieu of short-term leases. Staff should conduct a risk assessment as to the long-term need for the facility; the probability that state and/or federal funding for facility costs will be available over the lease term; and a cost analysis of the relevant net costs to the County of alternative financing approaches.

11.0 DEBT STRUCTURE CONSIDERATIONS

11.1 **Rapidity of Debt Repayment**. Borrowing by the County should be of a duration that does not exceed the economic life of the improvement that it finances. The debt repayment term should be shorter than the improvements projected life in an effort to improve the County's credit profile through early retirement of debt, and to recapture debt capacity for future use. The County may choose to structure debt repayment on any particular transaction so as to consolidate or restructure existing obligations or to achieve other financial planning goals.

11.2 **Capitalized Interest.** The County may include within its borrowings additional funds to pay interest on the obligation during an initial period. Such capitalizing of interest will be most commonly used to secure lease obligations during the project construction period, as generally required under California law, or to secure an improved financing structure for strategic management of cash flow.

11.3 **Asset Transfers.** The County may choose to secure a lease revenue obligation, such as certificates of participation, by leasing an existing facility to its tax-exempt lessor and leasing it back to secure a transaction that will finance another County improvement. Such "asset transfers" can lower the cost of a financing by improving its credit quality and can eliminate the need for capitalized interest to lower the total size of a borrowing.

11.4 **Special fund financing**. Under California law certain funds dedicated to special or enterprise operations can be pledged to repay revenue bonds or certificates of participation. Such financing will be excluded from the calculations of debt capacity. The County Executive Office will be responsible for determining that the use of such funds to secure bonds does not violate restrictions on such funds, and that underlying program commitments can be maintained in addition to meeting debt service obligations on debt secured by the restricted funds.

11.5 **Mello-Roos and Assessment Bonds.** The existing "Rules and Procedures of the Assessment and Community Facilities Districts Screening Committee" [adopted December 2000] contain the County's policies in this area. The CEO will evaluate programs in light of the total tax rate burden described herein.

11.6 **Short-term financing.** The County will consider issuing Tax and Revenue Anticipation Notes for annual cash flow purposes or other short-term financing instruments to the extent such notes would reduce expenses, increase revenues and/or expedite the meeting of County goals.

11.7 **Variable Interest Rate Securities.** As an alternative to selling traditional fixed-rate lease revenue bonds or COPs, the County can sell obligations where the interest is periodically re-set. Typically, the interest rate on these bonds would be re-set weekly, and the County would procure a liquidity instrument such as a letter of credit from a bank. The liquidity provided to investors by this structure can result in substantially lower interest rates. In exchange for the likelihood of lower payments, the County would accept the risk that interest rates could rise. Placer County should consider the issuance of variable rate debt to the extent that it anticipates maintaining cash balances, which would serve as a natural hedge for variable interest rate risk. To the extent that interest rates rise, thereby increasing debt service on variable rate debt, interest earnings to the General Fund would rise as well. Conversely, the use of variable rate instruments as part of a debt portfolio helps manage investment earnings risk. Without such debt, when interest rates fall, a county must simply adjust to reduced interest revenues. If a portion of debt were issued in variable rate mode, the reduction in interest income would be partially offset by a reduction in lease payments.

11.8 **Tax Increment Financing.** The County will consider tax increment financing to the extent permitted under state law, including refunding bonds issued by the Successor Agency and tax allocation bonds issued pursuant to infrastructure financing district and other similar laws.

11.9 PACE Financing. Notwithstanding any other provision of this Debt Policy, the County will issue Property Assessed Clean energy (PACE) debt in the circumstances approved by the Board of Supervisors from time to time.

12.0 METHOD OF SALE

There are generally three ways bonds can be sold, through a competitive, negotiated sale or a private placement. The following outlines the basis by which the County will determine the appropriate method of sale for a given financing.

12.1 **Competitive Process.** With a competitive sale, any interested underwriter is invited to submit a proposal to purchase an issue of bonds. The bonds are awarded to the underwriter(s) presenting the best bid according to stipulated criteria set forth in the notice of sale. The County, as a matter of policy, will seek to issue its debt obligations through a competitive process unless it is determined in consultation with the Treasurer/Tax Collector that such a sale method will not produce the best results for the County. This type of sale process is also significantly more likely to give the County higher market exposure which creates an awareness of County credit that increases market interest in future debt issues of the County.

12.2 **Negotiated Sale.** Under this method of sale, securities are sold through an exclusive arrangement between the issuer and an underwriter or underwriting syndicate. At the end of successful negotiations, the issue is awarded to the underwriters. Negotiated underwriting may be considered if it fits one or more of the following criteria: extremely small issue size; complex financing structure or nature of the project being financed (i.e., variable rate financing, new derivatives and certain revenues issues, etc.); compromised credit quality of the County or the issue; other issue or market factors which lead the CEO and Treasurer to conclude that a

competitive sale would not be effective. When determined appropriate by the CEO and Treasurer, and approved by the board, the County may elect to sell its debt obligations through a negotiated sale.

12.3 **Private Placement.** When determined appropriate, usually in the case of a very small issue, the County may elect to sell its debt obligations through a private placement or limited public offering. Selection of a lender or placement agent will be made pursuant to selection procedures developed by the CEO and Treasurer.

13.0 REFUNDING OF COUNTY INDEBTEDNESS

The County Executive Office will monitor the County's existing indebtedness, and will initiate the refunding of such obligations if it would generate a reasonable level of savings. The following guidelines will be used in determining whether a refunding would be appropriate.

13.1 **Debt Service Savings – Advance Refunding.** The County may issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, financially prudent, and net present value savings, expressed as a percentage of the par amount of the refunded bonds, equal or exceed 5 percent. The County Executive Office can approve a lower savings threshold to the extent that such a threshold is appropriate given the specific conditions of the proposed refunding.

13.2 **Debt Service Savings – Current Refunding.** The County may issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, and financially prudent, and net present value savings equal or exceed 3% of the outstanding amount of refunded bonds.

In addition, the Board of Supervisors may approve the refunding of outstanding obligations to achieve other public purposes, such as eliminating burdensome contractual obligations and shortening or lengthening the term to maturity.

14.0 FINANCINGS TAKEN ON BEHALF OF OTHER PARTIES

From time-to-time private entities may request that the County issue debt that meets a shared, private/public objective. While these policies do not attempt to comprehensively address such financing, the following policy considerations are noted.

The County has established a Bond Screening Committee to consider requests by developers or other property owner to create special benefit assessment and Mello-Roos special tax districts to assist in financing the infrastructure requirements of new development. This committee recently updated its Rules and Procedures. Those procedures are generally consistent with the policies articulated herein, and that document and these debt policies should be considered as complementary documents.

Under the federal tax code, local agencies such as counties can sell tax-exempt bonds on behalf of certain private activities, such as small industrial development projects, private solid waste operations, and low-income housing. Because of complexities in state law, counties rarely serve as issuers of such "conduit obligations"; they are more typically issued by the state or by joint-powers authorities. From time-to-time the County may be asked to conduct a public hearing for such transactions, as required of a local agency by the federal tax code. (Hearings referred to as a "TEFRA" hearing, after the name of the federal legislation that introduced this requirement, the "Tax Equity and Fiscal Reform Act."). The County review will focus on matters of County concern such as the public policy goals of the project and land use, and to ensure that there are no conflicts with County policies or goals. The County recognizes that such financing, if issued by a non-county agency, will not be deemed by any market participant to be County debt.

OTHER POST EMPLOYEE BENEFIT POLICY

1.0 PURPOSE

To promote fiscal responsibility and long-term planning efforts by adhering to an Other Post Employment Benefit (OPEB) Policy that will assist the County in addressing, as well as providing for, post-employment benefits using a defined amortization period.

2.0 POLICY

2.1 IRREVOCABLE TRUST FUND

Transfer all OPEB plan assets to Placer County's California Employers Retiree Benefits Trust (CERBT), an irrevocable trust, in order to maximize the investment's long-term rate of return.

2.2 COUNTY BUDGET

2.2.1 Payroll

With each budget cycle, at a minimum, fully fund the net actuarially determined, annual required contribution (ARC) for that year (formula = ARC less retiree health and dental payments).

a. OPEB funding in excess of the net ARC will be collected through payroll.

b. Using this figure, calculate the average cost per filled allocation that must be collected that fiscal year through payroll. Collect these funds every payroll cycle and transfer them to the CERBT at least monthly.

c. In keeping with GASB 45 requirements, prepare the County's OPEB Actuarial Report using a planned funding period of 15 years beginning in FY 2015-16 as a means to update the ARC and unfunded liability amounts.

d. Reconcile the payroll amount collected at mid-year with the minimum ARC amount required and, if necessary, adjust the amount being collected through payroll.

2.3 ADVANCE FUND OPEB LIABILITY

Direct additional funding to the CERBT through official Board actions during the year-end close process, the budget process, or when additional, unexpected or one-time funding materializes during the fiscal year.

2.4 LEGISLATION

Continue to monitor and / or introduce legislation that would maximize the County's flexibility to manage / administer benefits and minimize the growth of future liabilities.

2.5 REPORTING

The County Executive Office will report back annually to the Board on the progress the County is making towards funding promised benefits.

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