BORROWING POLICY

COUNTY OF YOLO

I. INTRODUCTION

To the extent permitted by law the County shall be allowed to utilize borrowing methods in order to provide general or specific benefits to the community it serves. The appropriate use of debt is paramount to the County of Yolo. The proper structuring and continued management of County debt for public accountability is critical. This Policy exists for these reasons, and to otherwise assure that debt is utilized only when in the best overall interest of the County.

II. COUNTY DEBT COMMITTEE

A. ***Purpose.*** The purpose of a debt committee is to provide a structure in order to oversee, manage and process the acquisition of debt. The debt committee shall review and advise the Board of Supervisors regarding all proposed and existing debt issues and to keep them informed on an on-going basis.

B. ***Composition.*** The debt committee shall be comprised of the following:

1. County Administrative Officer or designee;
2. Auditor-Controller;
3. Treasurer-Tax Collector;
4. County Counsel; and
5. Representative(s) from County Department proposing debt, if applicable.
   The debt committee shall utilize Bond Counsel, Financial Advisors, Underwriters, Disclosure Counsel, outside engineers, external auditors, and such other specialized service providers as appropriate.

C. ***Activities.*** The Auditor-Controller shall be responsible for the overall coordination of activities. Those activities may include as the issuance so dictates the following:

1. Costs/benefits/risk analysis;
2. Legal liability considerations;
3. Ability of the County to borrow short-term or long-term (legality, rating impact and cash flow impact);
4. Financing stability of the parties involved;
5. Ability of requesting department to generate the debt service requirements;
6. Adequacy of coverage and payment procedures in case of default;
7. Provision for accurate and timely redemption procedures; and
8. Responsibility of County to monitor compliance requirements.
9. Other activities as identified on a project-by-project basis.

III. COORDINATION WITH COMPREHENSIVE CAPITAL IMPROVEMENT PLAN

A. ***Plan Timing.*** The County shall develop, update and re-adopt annually, a five-year comprehensive capital improvement plan which details each capital project, the estimated cost, description and funding source, as part of the County's annual budget process. The plan shall be coordinated with the Auditor-Controller's analysis of planned financing with policy targets regarding the (1) magnitude and composition of the County's current indebtedness, (2) economic and fiscal resources of the County to bear such indebtedness over the next five years, and (3) required development fee reporting. The plan shall also be tied with the County's general plan to ensure that the capital items requested meet future growth needs.

B. ***Coordination.*** The Auditor-Controller shall oversee the timing, process of issuance, and marketing of the County's borrowing and coordinate the process within the context of the established Capital Improvement Plan. The Auditor shall make recommendations to the Board of Supervisors regarding necessary actions and shall keep it informed through regular and special reports as to the progress and results of current-year activities under the Plan.

C. ***Funding Priorities.*** No debt shall be issued for the purpose of funding capital projects unless it has been authorized by the Board of Supervisors and included in the Capital Improvement Plan, or modified Capital Improvement Plan.

D. ***Project Life.*** Projects and assets with a useful life of 5 or less years, or when the purchase is of a recurring nature, shall be incorporated in the Capital Improvement Plan as operating expenditures. (See VI. Allowance for Short-Term Debt).

IV. DEBT-RELATED BUDGET POLICIES

A. ***General.*** Because debt is an obligation of future budgets, appropriate restricted reserves for related future obligations shall be maintained. General Fund borrowings shall include appropriate borrowings from other County funds in the name of the General Fund when advance contributions to restricted reserves for future debt services and/or dedicated revenue streams from the other funds are needed. The County shall not enter into any debt contract which would create a significant unfunded liability.

B. ***Use of Debt.*** Debt should be utilized when it is in the best overall interest of the County government and its citizens. Debt or bond financing shall never be used to finance operating expenditures.

C. ***Debt Term.*** Debt maturity shall be equal to or less than the economic life of the financed asset or useful life of the project.

D. ***Bond Proceeds.*** The use of proceeds from long-term financing shall be limited to the uses authorized by law and allowed by the provisions of the particular debt issue. No financing will be undertaken to finance an operating deficit.

E. ***Debt Issue Size.*** Size of debt shall take into consideration (1) available existing funds finance project costs and (2) restricted savings that has accumulated for the specific project as a result of prior budget actions for said savings.

F. ***Taxable Status.*** Avoidance of taxable status shall occur unless it is determined that taxable status would be in the best interest of the County. The County shall comply with applicable IRS regulations and provisions including arbitrage rebate calculations, rebate of arbitrage profits, and any necessary tax filing.

G. ***Debt Credit Rating.*** The County seeks to maintain the highest debt credit ratings possible in order to enhance the County's reputation within the financial community and to minimize borrowing costs. Emphasis should be placed on protecting the County General Fund. The County will maintain good communication with the bond rating agencies and keep them apprised about the County's financial condition through provision of relevant reports and documents.

H. ***Taxpayer Equity.*** If a County Department proposed a debt issuance to be financed by General Fund revenues, the proposing department must demonstrate a benefit to a significantly large proportion of the County of Yolo's property tax payers. If the project would primarily serve a definable group of taxpayers, the obligation to repay the debt should be borne by that group of taxpayers when feasible. The Board of Supervisors may make exceptions to this general guideline as would be in the best interest of the County.

IV. DEBT LIMITATIONS

All borrowings shall be within prudent and legal limits. The Auditor-Controller shall monitor debt limitations and keep the Board advised.

A. ***Target Limitations on Non-Self-Supporting Unlimited Tax General Obligation Indebtedness.*** The amount of direct, non-self-supporting unlimited tax general obligation debt outstanding at any time that is subject to approval by the voters (excluding long-term, non-self-supporting leases) does not exceed 0.75% of the County's taxable assessed valuation.

B. ***Target Limitations on Non-Self-Supporting Limited Tax General Obligation Indebtedness and Full Faith and credit Lease-Purchase Obligations.*** The amount of direct, non-self-supporting, limited tax general obligation debt and full faith and credit lease purchase obligations outstanding at any time that are not subject to approval by the voters does not exceed 1.0% of the County's taxable assessed valuation. Furthermore, the County shall strive to limit the annual debt service requirements on these obligations to an amount that is not greater than 10% of annual General Fund revenues.

C. ***Target Limitations on Lease-Purchase Financing of Equipment and Furnishings.*** Outstanding lease-purchase obligations issued to finance capital equipment and furnishings shall not exceed 0.125% of the County's taxable assessed valuations. Repayment of these lease-purchase obligations shall occur over a period not to exceed the useful life of the underlying asset or in any case, no longer than five years from the date of such obligation. Such lease-purchase arrangements and repayment schedules shall be coordinated with and be included in the Comprehensive Capital Improvement Plan.

V. METHOD OF SALE

A. ***Competitive Sale.*** The County shall seek to issue its debt obligations in a competitive sale unless it is determined that such a sale method will not produce the best results for the County. When the County deems the bids received are unsatisfactory or does not receive bids, it may, at the election of the Board of Supervisors, enter into negotiation for sale of the securities.

B. ***Negotiated Sale.*** The County may elect to sell its debt obligations through a negotiated sale. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific program.

C. ***Private Placement.*** When determined appropriate by the Debt Policy Committee, at the election of the Board of Supervisors, the County may sell its debt obligations through a private placement or limited public offering.

VI. ALLOWABLE SHORT-TERM DEBT

A. ***Lease-purchase of Assets.*** County Departments in coordination with the Comprehensive Capital Improvement Plan and County Budget process may enter into lease purchase arrangements for fixed assets for a term not to excess 5 years, provided the manufacturer's suggested life of the asset is 5 years or more.

B. ***Lines and Letters of Credit.*** The Auditor-Controller and Treasurer-Tax Collector may from time to time judge it prudent and advantageous to the County to enter into agreements with commercial banks or other financial institutions for lines or letters of credit that shall provide the County with access to credit under the terms and conditions of those agreements. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be subject to the advance approval of the Board of Supervisors.

C. ***Tax and Revenue Anticipation Notes.*** The Auditor-Controller may ascertain the need to fund internal working capital cash-flow. Before issuing such notes, cash-flow projections shall be prepared by Auditor-Controller staff and be reviewed by the Debt Policy Committee. The Committee shall provide a report and recommendation to the Board of Supervisors which may then take any action it deems warranted. Tax and Revenue Anticipation Notes (TRAN) may be sold in either a competitive or negotiated sale.

VII. IMPROVEMENT DISTRICTS AND ASSESSMENT FINANCING

All of the County's Improvement Assessment indebtedness shall be self-supporting so as to minimize as much as possible County liability exposure. Prior to issuance by the County, the Auditor-Controller's office shall prepare projected cash flows which incorporate schedules for assessment contract payments, prepayments, delinquencies, and non payments. All Improvement District and Assessment Financing shall be subject to advance approval by the Board of Supervisors.

VII. REFUNDING OF INDEBTEDNESS

A. ***Advance Refundings.*** The County may issue advance refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, and prudent, ***and*** net present value savings expressed as a percentage of the par amount of the refunding bonds, equal or exceed 5 percent. Advance Refundings require Board approval.

B. ***Current Refundings - Debt Service.*** The County may issue current refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent and a net present value savings to the County will result.

C. ***Restructuring of Debt.*** The County may choose to refund outstanding indebtedness when existing bond covenants or other financial structure impinge on prudent and sound financial management.   When the Auditor-Controller finds that such a restructuring is in the County's best interest, such a finding shall be reported to the Debt Policy Committee. The Debt Policy Committee shall provide a report and recommendation to the Board of Supervisors which may then take any action it deems warranted.

VIII. USE OF CREDIT ENHANCEMENT

The County shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. The use of such credit enhancement need to meet the County's debt financing goals and objectives.

IX. REBATE REPORTING AND COVENANT COMPLIANCE

The Auditor-Controller shall establish a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with.

X. CONDUIT FINANCING

The County may sponsor conduit financing for those activities that have a general public purpose and are consistent with the County's overall service and policy objectives. All conduit financing must insulate the County to the maximum extent possible under the circumstances from any credit risk or exposure, and from all other liability exposure, and must first be considered by the Debt Policy Committee, prior to submission to the Board of Supervisors.

XI. OVERLAPPING DEBT

The County may elect to to issue debt that overlaps debt that may already be in place by other governments. In such instances, the County shall seek the support of the those other governing bodies so that each member government achieves its policy objectives.