

**COUNTY OF SAN DIEGO, CALIFORNIA**  
**BOARD OF SUPERVISORS POLICY**

**Subject**

Long-Term Obligations and Financial Management Policy

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**Purpose**

To establish a policy governing the management and planning for the long-term financial outlook and obligations that bear the County of San Diego's name or name of any related Agency for the County.

**Background**

The adoption of a policy to provide guidance on long-term financial strategy and obligations is important to ensure sound financial management practices. The Deputy Chief Administrative Officer/Auditor and Controller has overall responsibility for implementation and coordination of activities required to plan for and manage the long-term financial outlook and obligations.

The County of San Diego (County) recognizes that it may need to enter into long-term obligations to acquire or construct capital assets to meet the service needs of the region, and that these long-term obligations must be managed properly. The Chief Administrative Officer (CAO) has established the Debt Advisory Committee, the members of which are the Assistant Chief Administrative Officer, Deputy Chief Administrative Officer/Auditor and Controller, and the Treasurer-Tax Collector, to provide direct oversight on long-term financings and the portfolio of the County's long-term obligations. For the purposes of this policy, long-term obligations are those that exceed one fiscal year. This policy does not apply to leases in which the payments are not "securitized" or loans for permanent road divisions acquired in accordance with Board of Supervisors Policy J-16, Establishment of Assessment Districts to Provide for Maintenance of Local Roads.

**Policy**

It is the policy of the Board of Supervisors that the following practices are adhered to in managing the County's long-term obligations and outlook:

**1. Management Practices**

- 1.1. The County shall engage in Long-Term Financial Planning to align financial capacity with service objectives.
  - 1.1.1. The County shall maintain and adhere to Board of Supervisors Policy G-16, *Capital Facilities and Space Planning* to assure the sustainability of its infrastructure. The policy requires the Facilities Planning Board to develop an annual Capital Improvement Needs Assessment (CINA) to include a comprehensive list of all current and anticipated capital projects over a five-year period.
- 1.2. The CAO shall prepare a structurally balanced multi-year budget (operational plan). In accordance with the County Budget Act, the first year of the operational

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plan will be formally adopted by the Board of Supervisors and approved in principle for the following year(s).

- 1.2.1. The CAO shall provide a quarterly budget status report to the Board of Supervisors that may also recommend changes to appropriations to address unanticipated needs or make technical adjustments to the budget in accordance with the County Budget Act. These reports are placed on the Board of Supervisors regular agenda and are also posted online.
- 1.3. The County shall maintain fund balances and reserves in the General Fund to support fiscal health and stability in accordance with Article VII, Section 113 of the San Diego County Code of Administrative Ordinances.
- 1.4. The County shall publish an annual cash flow projection and quarterly status of actual/projected cash flows.
- 1.5. The County shall invest general purpose revenue savings generated by maturing long-term obligations and/or refinancings to accelerate payment of outstanding long-term obligations (including pension unfunded actuarial accrued liability and/or economic defeasance of outstanding long-term obligations) and/or to avoid the issuance of new long-term obligations by cash financing of capital projects.
- 1.6. The County shall invest one-time over-realized general purpose revenue generated by greater-than-anticipated assessed value growth to accelerate payment of pension unfunded actuarial accrued liability.

**2. Long-Term Obligations**

- 2.1. The following types of long-term obligations may be issued: general obligation bonds, lease revenue bonds, certificates of participation, lease-purchase transactions, land secured financings such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, conduit financings and any other long-term obligation structure allowed by law.
- 2.2. Long-Term Obligation Limits
  - 2.2.1. All long-term obligations shall comply with Federal, State and County Charter requirements.
  - 2.2.2. All long-term obligations must be approved by the Board of Supervisors after approval and recommendation by the Debt Advisory Committee.
  - 2.2.3. Prior to its recommendation, the Debt Advisory Committee shall assess the ability of the County to repay the obligation, identify the funding source of repayment, evaluate the impact of the ongoing obligation on the current budget and future budgets, assess the maintenance and operational requirements of the project to be financed, and consider the impact on the County's credit rating.
  - 2.2.4. The term of the long-term obligation will not exceed the useful life or the average life of the project(s) financed.

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2.2.5. Annual principal and interest payments on long-term obligations of the General Fund will not exceed 5% of General Fund revenue.

2.3. Uses of Long-Term Obligations

2.3.1. Long-term financial obligations shall not be used to finance current operations or for recurring needs.

2.3.2. The Board of Supervisors may consider long-term obligations for the purpose of providing office space or operational facilities to County departments or agencies, upon recommendation of the Debt Advisory Committee. Capital projects identified as candidates for long-term financing first should have been identified and prioritized during the development of the County's multi-year CINA. If the Debt Advisory Committee deems that the financing is feasible, financially and economically prudent, coincides with the County's objectives, and does not impair the County's creditworthiness, then it will be forwarded to the Board of Supervisors for consideration.

2.3.3. The Board of Supervisors may consider conduit financing on behalf of non-profit organizations upon recommendation of the Debt Advisory Committee. Initial contact will be directed to the Debt Advisory Committee and if the Committee decides that the conduit financing is feasible, financially and economically prudent, coincides with the County's objectives, and does not impair the County's creditworthiness, it then will be forwarded to the Board of Supervisors for consideration. All expenses related to the conduit financing will be borne by the applicants.

2.3.4. The Board of Supervisors may consider assessment district and community facilities district financings to provide for public improvements, whether initiated by petition of the property owners, the County or a non-County agency. Initial contact will be directed to the Debt Advisory Committee and if the Committee decides that the financing is feasible, financially and economically prudent, coincides with the County's objectives, and does not impair the County's creditworthiness, it then will be forwarded to the Board of Supervisors for consideration. All expenses related to the assessment district or community facilities district financing will be borne by the applicants.

2.4. Structuring Practices

2.4.1. The County shall continually review outstanding obligations and aggressively initiate refinancings when economically feasible and advantageous pursuant to the Refunding Policy of the Debt Advisory Committee.

2.4.2. Variable rate obligations shall not exceed 15% of the County's outstanding long-term obligations.

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- 2.4.3. Derivative products, such as interest rate swaps, may be considered only if they meet the economic goals and policy objectives of the County as outlined in the Swap Policy of the Debt Advisory Committee.
- 2.4.4. Long-term obligations taken on by organizations utilizing the County as a conduit issuer must qualify for an investment grade rating by one of the nationally recognized rating agencies (either with or without alternative credit enhancement). An exception to this requirement would be private placements subject to approval by the Debt Advisory Committee.
- 2.5. To ensure the proceeds from long-term obligations will be directed to the intended use:
  - 2.5.1. The County shall comply with the internal controls outlined the Debt Advisory Committee Post Issuance Tax Compliance Policy, including those guidelines relating the segregation of bond proceeds.
  - 2.5.2. The County shall employ the services of a Trustee for the disbursement of bond proceeds in accordance with the applicable financing documents.
  - 2.5.3. The County shall enforce the filing of notices of completion on all projects within five years of their financing.
  - 2.5.4. All investments of bond proceeds shall comply with state and federal requirements. In addition, all investments of bond proceeds deposited in the Pooled Money Fund Investment Fund shall comply with the San Diego County Treasurer's Pooled Money Fund Investment Policy.
  - 2.5.5. The Debt Advisory Committee shall annually review the disbursement and investment of bond proceeds. Excess earnings will be rebated as required by the U.S. Treasury to avoid the loss of tax-exempt status.
- 2.6. The County shall encourage and maintain good relations with credit rating agencies, investors in the County's long-term obligations and those in the financial community who participate in the issuance or monitoring of the County's long-term obligations.
  - 2.6.1. In accordance with the applicable retention schedule, a policy of full and open disclosure on every financial report and long-term obligation transaction will be enforced, an investor relations website will be maintained with current and accurate information, and a credit rating agency presentation/update shall be conducted annually.
  - 2.6.2. The County shall comply with all ongoing disclosure conditions and shall file such required documents in a timely manner.

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**Sunset Date**

This policy will be reviewed for continuance by 12-31-24.

**Board Action**

- 8-11-98 (32)
- 3-12-2002 (10)
- 6-15-2004 (22)
- 12-09-2008 (33)
- 12-07-2010 (27)
- 11-17-2015 (26)
- 9-12-2017 (20)
- 11-14-2017 (27)

**CAO Reference**

1. Deputy Chief Administrative Officer/Auditor and Controller
2. Treasurer-Tax Collector