AGENDA _____ October 8, 2024

COUNTY ADMINISTRATOR

SUSAN S. MURANISHI
COUNTY ADMINISTRATOR

October 3, 2024

Honorable Board of Supervisors
County Administration Building
1221 Oak Street, Suite 536
Oakland, CA 94612

Dear Board Members:

SUBJECT: ADOPT A RESOLUTION AMENDING THE COUNTY'S FINANCIAL POLICIES - DEBT MANAGEMENT, FINANCIAL MANAGEMENT AND ACCOUNTING POLICIES

DISCUSSION/SUMMARY

Over the years, your Board has adopted several policies to provide guidance and strengthen the financial management processes and practices of the County. The policies address debt issuance; revenue and expenditure uses; capital investments and improvements; and reserves and designations. County staff and our independent financial advisors have reviewed all existing policies for compliance with SB 1029 (which requires the County to adopt a local debt policy), the Governmental Accounting Standards Board (GASB), the Generally Accepted Accounting Principles (GAAP) and the Government Finance Officers Association (GFOA) guidelines.

The following proposed change to the Accounting Policies (Attachment 3) reflects best practices and goals that the County can strive to achieve:

> The annual designation for Capital Projects and infrastructure investments may be increased to up to 7% of the total General Fund Budget. This change will help fund the Long-Range Capital Financing Plan to address the County's significant deferred maintenance, unmet capital needs, required life/safety and other mandated capital improvements which total approximately $1.3 billion.

This change in the Accounting Policies will be funded by the suspension of the Fiscal Management Reward Program (FMR). The FMR Program was created by the Board of Supervisors in April 1993 as an innovative incentive-based approach to discourage the traditional "use it or lose it" method of budgeting and expending funds. Over the years, significant changes in federal and State funding formulae and sources that support County programs have impacted revenue receipts and changed expenditure patterns. The basic calculations to determine departmental net savings as compared to the Board-approved budgets have become very complex and the recording of revenues and expenses can significantly impact a department's FMR calculation. The premise of the initial FMR program was to encourage departments to achieve year-end budget savings and receive credit for the department's contribution to year-end fund balance. Departments were allowed to use their earned fund balance for one-time departmental expenses and most significantly, apply those savings to mitigate subsequent budget reductions. Absent the FMR program, year-end savings would accrue to a single fund balance account available to the Board of Supervisors and County Administrator for countywide budget balancing and/or capital improvements and special projects.

Given the significant changes in State/federal funding, expenditure requirements and fiscal challenges, in August 2023 your Board supported the allocation of 50% of each department's year end FMR to support the County's growing infrastructure and capital project funding needs. In addition, since high vacancy rates have impacted FMR balances, we will continue our ongoing review of salary savings and evaluate positions that have been vacant for extended periods. To better position the County to face the financial challenges ahead including unmet capital and infrastructure, we recommend that the FMR Program be phased-out and all year-end savings accrue to the countywide fund balance to support proposed changes in the Accounting Policies that will increase funding for capital projects and infrastructure and help balance the annual County budget. As part of the phase-out of the FMR program, we also recommend that funds earned as FMR through FY 2023-24 be maintained in a separate designation by the Auditor-Controller for use by departments for one-time capital projects and other investments consistent with County policies and subject to Board approval.

The financial discipline built through implementation of the FMR program over thirty years ago, has served the County well and provided the Board and departments with an understanding and appreciation for fiscal stewardship and longer-term financial planning. The adoption of the attached resolution amending the County's Financial Policies - Debt Management, Financial Management and Accounting Policy will provide updated financial guidance and best practices to strengthen and stabilize the County's financial management policies in alignment with Vision 2026 and help maintain our AAA credit ratings and financial standing.

FINANCING

The proposed changes to the County's financial policies will not result in an increase in net County cost.

VISION 2026

Adoption of the resolution supports the County's operating principle of fiscal stewardship in support of our shared visions of a **Thriving and Resilient Population**, **Safe & Livable Communities**, a **Healthy Environment**, and a **Prosperous & Vibrant Economy**.

Very truly yours,

Melissa Wilk
Auditor-Controller

Susan S. Muranishi
County Administrator

SSM:PO
Attachments

cc: County Counsel

Attachment 1

COUNTY OF ALAMEDA

DEBT MANAGEMENT POLICY

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I. SCOPE AND PURPOSE OF POLICY

Objectives and Responsibilities

The purpose of the County of Alameda's Debt Management Policy (the "Debt Policy") is to establish parameters and guidelines for the issuance of debt, and to provide background and guidance to decision-makers regarding the appropriate use of debt and other repayment obligations of the County.

The Debt Policy is designed to help meet certain key policy objectives, including:

- Maintain the financial stability of the County by encouraging sound decision-making, so that long-term financing commitments are affordable and do not create undue risk or burden.
- Provide guidelines for determining the appropriate use of debt financing to fund County projects, and to incorporate best practices into the County's issuance and administration of its indebtedness.
- Maintain a moderate debt burden.
- Maintain strong credit ratings and general market receptiveness to ensure efficient access to the capital markets and minimize the cost of capital.
- Meet the requirements of state and federal law and regulation, including federal requirements regarding disclosure.
- Ensure that the County's debt is consistent with the County's planning goals and objectives and capital improvement program or budget, as applicable.

The debt management function is primarily the responsibility of the County Administrator, subject to the review of the County Administrator's Ad Hoc Finance Committee (the "Finance Committee"). The Finance Committee is composed of two members of the Board of Supervisors, the Auditor-Controller, the Treasurer-Tax Collector, County Counsel (or his or her designee), and two representatives from the County Administrator's Office.

This Debt Policy is intended to inform and guide County decision-makers in the issuance and administration of bonds and other forms of indebtedness, as well as any ancillary products, instruments, and agreements related to the issuance of debt.

Scope

The Debt Policy establishes parameters around which debt and other financial obligations of the County may be issued, including obligations of the County of Alameda, the Alameda County Joint Powers Authority (a joint powers authority of the County and its Surplus Property Authority created to facilitate financing), any obligations of the County issued through conduit issuers such as the California Infrastructure and Economic Development Bank, and obligations of related entities such as the Fire Department (a legally separate entity governed by the County Board of Supervisors), the Oakland-Alameda County Coliseum Authority and the Alameda County Tobacco Asset Securitization Corporation.

Debt Policy Review and Approval Process

This Debt Policy is subject to periodic review and update, as material changes in market conditions, best practices, legal or regulatory requirements warrant, or to better reflect the County's own experience and practices. The County Administrator will be responsible for preparing such updates, subject to the review of the Finance Committee and the approval of the Board of Supervisors. The County may adopt supplemental policies related to financing instruments not currently used by the County, as needed.

II. TYPES OF COUNTY BORROWINGS

The following are the types of debt that the County may issue.

- **General Obligation ("GO") indebtedness:** The County can issue general obligation bonds with approval of 2/3 of those voting at an election. Such bonds would be repaid out of a supplemental property tax, levied based on the value of property. General obligation bonds would be an appropriate method of financing capital improvements of County-wide benefit, if 2/3 voter approval could be obtained. (Note that as a legally separate entity serving unincorporated areas of the County, the Fire Department can issue general obligation bonds secured only by the taxpayers in their service area with 2/3rd voter approval.)

- **General Fund lease obligations:** Long-term obligations secured by lease payments from a County's General Fund do not require voter-approval under California law; various State Supreme Court decisions have distinguished long-term lease obligations from constitutionally restricted "indebtedness" such as general obligation bonds (this distinction is referred to as the lease exception to the State constitutional debt limit). Lease obligations can take the form of publicly offered lease revenue bonds or certificates of participation or may take the form of financing leases that are privately placed with a bank. There is no legal limitation on the amount of such obligations a County can incur, although there are practical budget limitations of debt affordability, and this Policy establishes the County's own limits in Section IV, below. In addition, the structure of a lease obligation is subject to various conditions articulated in the case law that established this exception to voter approval.

  While most of the County's lease obligations have been issued by the Alameda County Joint Powers Authority, other entities can issue obligations secured by a County lease. For example, the debt of the Oakland-Alameda County Coliseum Authority was secured by leases with the County and with the City of Oakland.

- **Pension Obligation Bonds.** The County may also issue long-term debt in the form of Pension Obligation Bonds ("POBs") to fund unfunded accrued actuarial liability ("UAAL") related to the County's participation in the Alameda County Employees' Retirement Association, or "ACERA". POBs are issued as taxable instruments (not benefiting from the lower interest cost of tax-exempt rates). The County has issued POBs in the past when it determined that the total cost of debt service was likely to be lower than the amortization of UAAL through traditional means. No such bonds are currently outstanding.

  Pension obligation bonds are authorized under another exception to the State constitutional debt limit (for obligations "imposed by law"), which also includes the ability to issue bonds to satisfy certain judgment obligations. While such obligations are not subject to voter approval, they are typically validated in Superior Court.

- **Cashflow borrowings:** The County can issue tax and revenue anticipation notes that are repaid out of current year revenues to smooth any temporary cash shortages. The County has not utilized this form of financing in the recent past as it has maintained sufficient cash balances.

- **Enterprise revenue debt:** Debt can be secured by a local government's electric, water, solid waste, and sewer enterprises. The County does not currently operate any enterprises appropriate for such revenue-secured debt.
- **Assessment and Mello-Roos special tax bonds:** The County can form assessment districts, with majority property-owner approval, to finance projects that provide special benefit to the property. Similarly, property-owners of undeveloped land can approve Mello-Roos special taxes or assessments to finance public improvements; these forms of finance are generally referred to as "land-secured debt." A Mello-Roos district can also be established in developed communities with 2/3rd approval by registered voters. The County has no such debt outstanding. At the time any such debt should be considered in the future, specific land-secured policies should be drafted for Board consideration, consistent with State law (policies are required for Mello-Roos districts) and best practices.
- **Tax allocation bonds:** The County's former redevelopment agency had the power to issue bonds secured by the property tax-increment generated by its project areas, as well as enter into other debt-like obligations. With the dissolution of redevelopment, no new obligations can be incurred. The redevelopment agency's successor agency can refund outstanding debt for savings. Going forward, Enhanced Infrastructure Financing Districts (EIFD's) provide for tax increment financing, but only utilize the share of the general property tax of the sponsoring agency or agencies.
- **Conduit debt:** Counties can also issue tax-exempt bonds to lend the proceeds to certain non-profit corporations and other activities that fulfil a public purpose, usually to provide them with the benefit of lower-cost tax-exempt interest. These policies are not meant to cover such debt.
- **Tobacco Securitization Bonds.** The County sold its rights to receive revenues under the master tobacco settlement in two installments, in 2000 and 2006. The California County Tobacco Securitization Agency issued bonds to finance the acquisition of the County's revenues, with the County applying the proceeds primarily towards health facility improvements. While those bonds are not debt of the County, the County may have opportunities to initiate the refunding of that debt in the future.

III. FORMS OF COUNTY DEBT

The following are some other characteristics of the County's debt issuance.

- **Long-term Debt.** Long-term debt is typically incurred to finance capital improvements, such as the acquisition or improvement of land, facilities, or equipment. The County may also issue tax-exempt bonds to reimburse itself for prior expenditures originally paid from sources other than bond proceeds; reimbursement for construction (as opposed to design and other soft costs) can generally be reimbursed from tax-exempt bonds only if the County has adopted a resolution expressing its expectations for such reimbursement prior to the expenditures.

  On occasion, long-term debt may be used for other purposes that further the County's governmental purpose, such as to restructure pension obligations.

  In addition to project costs, various expenses relating to the financing are commonly paid from bond proceeds, including the costs of issuing the debt, which can include underwriter's discount, the fees of bond and disclosure counsel and municipal advisors, and rating fees.

When appropriate, Capitalized Interest and Debt Service Reserves can be funded out of proceeds, as discussed below.

- **Short-Term Debt.** The County may use short-term borrowings to provide interim financing. In the past, the County issued commercial paper notes for projects such as Highland Hospital, with the notes subsequently refunded with long-term debt or repaid out of County funds. Other forms of short-term debt the County might consider include bond anticipation notes and tax and revenue anticipation notes (TRANS).

- **Variable-Rate Debt.** While the interest rates for most of the County's borrowings, will be fixed for the life of the debt issue, the County may issue bonds or other obligations (including commercial paper) whose interest rate fluctuates on a periodic basis (e.g., daily or weekly). Variable rate debt may be appropriate to diversify the County's debt portfolio, to reduce interest costs, and/or to provide for asset-liability matching—whereby the variable rate debt provides a hedge against assets also earning at a variable rate, such as the County's investment pool. The appropriate amount of variable rate debt for the County will be considered at the time any such debt should be considered.

- **Refunding Transactions.** Most municipal debt can be prepaid at some point prior to its maturity. For publicly offered bonds, the convention is that bonds can be called at the issuer's option after ten years The County will regularly review its outstanding debt portfolio to identify opportunities to achieve economic benefits from refunding its outstanding debt at a lower interest rate. In general, the County shall achieve net present value ("NPV") savings of at least three percent (3%) of the refunded principal amount, although in many cases a substantially higher savings threshold may be appropriate.

  One case where a high threshold is likely appropriate is for an "advance refunding" (the term applies in the case where bonds are sold more than 90-days before the optional call date). Beginning in 2018, advance refunding bonds cannot be sold with tax-exempt interest, so that an issuer must issue higher-cost taxable bonds and forego the benefits of a tax-exempt current refunding. When considering a taxable advance refunding, an analysis will be performed indicating how much interest rates could rise before a future current refunding at the call date would not generate the same savings (i.e., the break-even rate).

  In addition, the analysis of an advance refunding will account for "negative arbitrage" in the refunding escrow, the escrow created to hold the proceeds of the advance refunding bonds until the call date on the refunded bonds. These escrowed proceeds are typically invested at an interest rate that is lower than the cost of borrowing, resulting in a net cost to the issuer that must be financed by increasing the size of the refunding bond issue, thus eroding savings. Besides meeting the present value savings criteria mentioned above, the amount of negative arbitrage should be less than 50% of the NPV savings.

  In lieu of an advance refunding at taxable rates, the County may consider a forward refunding at tax-exempt rates, in which interest rates may be set up to a year before the bond closing. Rates on a tax-exempt forward will be higher than current tax-exempt rates but can be lower than taxable rates and would eliminate the need for an escrow and thus concerns with negative arbitrage. Similar criteria to those above will be applied when considering a forward refunding.

- **Swaps and Other Derivatives.** Prior to the financial crisis of 2007–2008, many municipal borrowers issued variable rate debt and matched that debt with a swap or other derivative product that effectively created a "synthetic" overall fixed interest rate. The County adopted a Swap Policy in 2004, which was updated in 2014. That policy allowed consideration of a swap if the County made a finding that the swap would substantially reduce cost or risk to the County. The use of swaps has all but disappeared in the municipal market. Rather than attempt to update the County's swap policies now, additional policy criteria will be presented in the future in the unlikely event that the County should ever consider use of a derivative product.

IV. INTERFUND LOANS

In lieu of issuing bonds or otherwise borrowing from third parties, there will be situations where the most appropriate means for the County to borrow money will be through a loan from a well-capitalized County fund. Such interfund loans can be seen as an alternative investment of temporarily surplus County funds, which normally would be invested at a short-term rate as part of the County's pooled investment program. In approving any new interfund loan, the Board will adopt a resolution that sets forth the terms of the loan, which will include the following:

- The maturity date of the loan.
- The interest rate that the loan will bear until repayment. Appropriate interest rates may be a fixed-rate (e.g., the rate that the investment pool is earning at the time the loan is approved, the rate of an US Treasury security of an equivalent term of the loan, or a rate that reflects the additional risk or illiquidity of the loan to fully compensate the fund that provides the loan); or a variable interest rate (such as the rate that the investment pool earns over the term of the loan).
- The terms under which the loan will be repaid, such as frequency of payment (monthly, semiannually, annually), interest calculation method (360/365, monthly, annually), date of repayment (for example., first of the month), any prepayment penalty, and other payment terms.
- If there is a possibility that the loan will be repaid from the proceeds of tax-exempt bonds, the approving resolution will contain a statement of such expectations so as to satisfy the federal tax law requirements for reimbursement bonds.

V. RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND BUDGET

The County is committed to long-term capital planning. The County Administrator prepares an annual Five-Year Capital Improvement Plan ("CIP"), in collaboration with the General Service, Public Works, and Community Development Agencies. The CIP tracks the completion of Board-approved projects and documents the requests for additional capital improvements made by County departments. The CIP identifies available funding and calculates the amount of unfunded capital needs and deferred maintenance.

In developing its annual CIP, the County will analyze the long-term borrowing needs of the County and the impact of any planned debt issuances on the long-term affordability of all outstanding debt, as well as the impact on the County's capacity to incur future debt to fund new projects.

The County may issue debt for the purposes stated in this Debt Policy to implement policy decisions incorporated in the County's capital budget and the CIP. The County shall integrate its debt issuances with the goals of its capital improvement program and consider when projects are needed in furtherance of the County's public purposes in determining the timing of debt issuance.

VI. DEBT LIMITATIONS AND AFFORDABILITY

Uses of Debt

Debt is used as tool to finance capital projects that are too large to accommodate as part of the annual budget, to equitably share the cost of major improvements between current and future taxpayers or ratepayers, and/or to accelerate the delivery of a project. On the other hand, debt service represents a fixed cost that will compete with other expenditures in the County's budget and cannot be deferred in any given year. In order to achieve the proper balance in its use of debt, the County will comply with the following policy goals:

- In general, the County will use long-term debt financing only for those projects that cannot be readily financed from current revenue or fund balance that has been allocated towards capital purposes.
- The County will plan for capital improvements and maintenance as part of its budgeting process, seeking to set funds aside in advance of need so that most capital projects can be financed on a "pay-as-you-go" basis. Debt financing will be reserved for extraordinary capital expenditures.
- Except to alleviate cash-flow timing issues within a fiscal year, the County will not use debt to finance operating expenses. The County may consider use of debt in the event of an extraordinary non-capital expense, such as the financing of a major judgment.

The County will continue its practice of issuing debt only occasionally, and only for the most essential projects. The use of debt financing may be included as a source of financing in the County's five-year Capital Improvement Plan (although its primary focus is on pay-as-you-go financing), or considered on an ad hoc, project-specific basis.

Debt Limitations

The County will establish debt limitations on a program-by-program basis.

- **General Obligation Bonds.** State law limits the amount of general obligation bonds the County can issue to 1.25% of the total net assessed value. Based on Fiscal Year 2021-22 assessed valuation, the maximum amount of general obligation bonds the county could have outstanding was approximately $4.4. billion. In practice, the 2/3 voter approval serves as a practical limit on the amount of the County's general obligation indebtedness. This policy does not attempt to impose any additional limitations beyond those imposed by State law and the voters.
- **General Fund-Supported Debt.** The County will evaluate the benefit and risks of each proposed issue of new General Fund debt on a case-by-case basis, considering such factors as the County's overall fiscal health, the potential impact of increased debt service on then current service levels and other long-term considerations such as funding requirements for pensions and other post-employment retirement benefits.

  The County's debt financing program shall be managed such that the annual aggregate "Net Direct Debt Service" (debt payments made from the General Fund, excluding debt paid out of a dedicated funding source such as an escrow) will not exceed twenty percent (20%) of total discretionary General Fund revenues as identified in the County's most recent budget. Debt paid by the Emerald Fund will be included in this analysis. This calculation of the debt burden will be updated from time to time, and contained in any staff report recommending the approval of any such new obligations.

VII. DEBT ISSUANCE PROCEDURES

Approval of Debt Issuances

Recommendations for all debt issuances must be developed by the County Administrator, with review by the Finance Committee, and will be subject to the approval of the Board of Supervisors. The Board of Supervisors may approve transactions that deviate from the Debt Policy, if such transactions are deemed to be in the best interest of the County.

Certain types of transactions, such as POBs, may require a validation action by the Superior Court. The County will not permit a preliminary official statement or other offering document for a transaction for which a validation action has been sought to be posted and circulated prior to the expiration of the 30-day appeal period relating to any required validation action.

Method of Sale

In general, bonds and other debt obligations will be sold through one of three methods: competitive sale, negotiated sale, or private placement. The County will determine the appropriate method of sale for its proposed obligations based on the unique circumstances of each transaction, and based on the recommendation of the Finance Committee and Board approval.

- **Competitive Sale.** This method of sale is similar to a public works bid, where the County and its financing team would structure the transaction and then solicit bids from underwriters at a certain date and time and award the bond solely on the basis of the lowest true interest cost. The underwriter would have no involvement in the structuring, documentation, or other matters during the transaction. A competitive sale has the public policy advantage of transparency, and may be favored when market conditions are stable, the credit quality of the transaction is high and well-established, the par amount of the transaction is of moderate size, and the bonds have a conventional fixed-rate structure. Participation of MBE/WBE and SLEB firms in the competitive underwriting syndicate will be strongly encouraged unless prohibited by state or federal law.
- **Negotiated Sale.** In a Negotiated Sale, the County would select one or more underwriters several months in advance of the planned sale of bonds, and the underwriter would participate throughout the development of the transaction. In a negotiated sale, the terms of the bonds, including interest rates, are negotiated at the time of sale, based on general market conditions, investor demand, and the book of orders for the bonds. Negotiated sales are generally preferred when the size or structure of the bonds is not conducive to competitive sale (e.g., a very large or very small transaction or the use of non-standard features), during volatile market conditions, for more complicated or less common securities, or when the control of the underwriting team better furthers other objectives of the County. The County has favored negotiated sales in part because it allows for the assurance of participation of MBE/WBE and SLEB firms in the underwriting syndicate.
- **Private Placement.** A Private Placement describes a transaction that is not offered to the public investment market as a bond or other security, but rather is placed directly with a lender, often a commercial bank. Private placements serve as an alternative source of borrowing and may be in the form of a fixed-rate or variable-rate loan, the latter often in the form of a revolving line of credit. Private placement lenders typically will be procured through a

competitive process. Private placements will be used for smaller transactions, unconventional credits, or other cases where the administrative effort and transaction costs of a public offering undermine their benefit of potentially lower interest rates.

Professional Services

The County will procure professional services related to the issuance of debt based on the following selection procedure. Requests for Qualifications (RFQs) or Requests for Proposals (RFPs) for qualified professions will be issued periodically, will be screened and ranked by the Finance Committee, and recommendations for inclusion in an appropriate pool of service providers will be forwarded to the Board for approval. The composition of the pool will reflect the diversity of the County and will have member firms with experience with a variety of debt structures relevant to the County. The pool will be reviewed and updated, including requesting new statements of qualifications or proposals, from time to time, as deemed appropriate by the Finance Committee.

At the time of a financing or such other times as deemed appropriate, the Finance Committee will review its pools and make recommendations for appointments to the Board of Supervisors.

The following are the key professionals to be utilized by the County.

- **Municipal Financial Advisor.** The role the financial advisor (referred to as a Municipal Advisor under federal securities regulations) is to assist in evaluating financing options, making recommendations as to debt structure and the method of sale, and managing the marketing of the bonds. The County will establish a pool of municipal advisors through the issuance of a RFQ. The County will engage one or more municipal advisors to provide on-call financial advisory services and project-specific advisory services as needed, as well as to serve as advisor on bond transactions. In addition, the County may also engage a single municipal advisor to serve as a general advisor to the County Administrator and serve as the County's Independent Registered Municipal Advisor ("IRMA") to assist in reviewing unsolicited underwriter proposals. All municipal advisors shall be registered with the Municipal Securities Rulemaking Board ("MSRB") as well as the Securities and Exchange Commission ("SEC").

- **Bond and Tax Counsel.** Bond counsel is a specialized legal practice responsible for drafting legal documents and providing necessary opinions and will be appointed for any financing. In most cases, the same firm will serve as tax counsel and issue an opinion as to the tax-exempt treatment of the interest on the bonds. The County shall engage bond and/or tax counsel ("Bond Counsel") for each transaction. The County will establish a counsel pool through the issuance of a master counsel RFQ, which will be used for the selection of bond and disclosure counsel. County Counsel will participate with the Finance Committee in the review and recommendation process.

- **Disclosure Counsel.** The role of disclosure counsel is to prepare the official statement (an offering document similar to a prospectus) for each bond issue, and to assist the County with meeting its continuing disclosure obligations. The County shall engage a disclosure counsel to serve on all County-initiated bond transactions. The County may determine that it is in the County's interest to retain a single, ongoing disclosure counsel to assist in all County General Fund-related disclosure matters, including both transaction-specific as well as continuing disclosure.

- **Underwriters.** The primary role of the underwriter is to purchase publicly offered bonds and other securities and resell them to investors. The County will establish a pool for underwriting negotiated bond sales through the issuance of a master RFQ. When the County has identified a project or refunding opportunity that warrants the issuance of bonds, and it has determined it will make use of a negotiated sale for the transaction, the County Administrator will work with the Finance Committee to develop its recommendations for an underwriting team to the Board of Supervisors for approval.

- **Trustees.** Most bond transactions employ a bank in the capacity of trustee or fiscal agent, who performs all functions and duties required under the terms and conditions set forth in the governing agreement, including dispersing bond proceeds, maintaining records of fund balances and investments, and making payments to investors. The County may select a trustee through an RFQ process or through such other process as it deems advisable, taking into account special considerations such as the existence of parity obligations under the trust indenture (which may tend to favor the use of the same trustee) and past performance on County transactions.

Credit Ratings, Credit Enhancements, and Bank Facilities

The County Administrator will evaluate and make recommendations regarding the number of credit ratings to seek, as well as any types of credit enhancements that may be cost-effective for the transaction in question. The County may also issue debt that is not rated under certain circumstances, including a private placement or land-secured debt such as assessments and Mello-Roos bonds.

As long as the County's general credit is rated AAA by all three of the major rating agencies (Fitch, Moody's and Standard & Poor's), the County will generally seek ratings from all three agencies on its bond issues.

The County will also evaluate the cost and benefit of purchasing bond insurance to increase a rating on a given debt issuance and have the authority to purchase bond insurance if it is deemed cost-effective or otherwise advantageous. In addition to an analysis of costs and benefits, the County will also consider any material conditions of the bond insurance policy that may have a future negative impact on the County's financing flexibility.

The County may enter into letters of credit, lines of credit, revolving credit lines and loan agreements with one or more commercial banks to provide credit support and/or liquidity, or as the direct funding source for the obligation.

VIII. DEBT STRUCTURING PARAMETERS

Maturity

The final maturity of any debt obligation issued to fund capital improvements shall not exceed the useful life of the assets being financed, and in most cases will be shorter. If the debt obligation is secured by a dedicated revenue source, the final maturity shall not exceed the expiration date, if any, of the dedicated revenue source.

POBs may not be issued with a final maturity longer than the amortization period of the UAAL.

Amortization

The County will evaluate options for the amortization of principal in the context of its financing needs, with a preference towards substantially level debt service, either on an individual bond series or in the context of a larger plan of finance for a project that is expected to be financed over multiple series of bonds.

Debt Service Reserves

When beneficial to the County in securing higher ratings or otherwise reducing the cost of funds, a debt service reserve fund, which provides additional security to investors, may be funded from the proceeds of bonds.

The County shall have the authority to purchase reserve equivalents (e.g., a surety) from the proceeds of bonds, in lieu of a cash-funded debt service reserve fund, when such purchase is deemed prudent and cost effective. Such purchases will be compared on a net present value basis to an invested cash-funded debt service reserve fund.

Capitalized Interest

Capitalized interest refers to a portion of debt proceeds that is set aside to pay interest on the bonds for a specified period of time. Interest is sometimes capitalized during the construction period of a project to better time debt service with revenues, or to meet the requirements of a lease financing. The County may fund capitalized interest during construction or to provide sufficient time to place general obligation debt service on the property tax roll.

IX. DISCLOSURE AND MARKET RELATIONSHIPS

The County Administrator, in consultation with County Counsel and ongoing disclosure counsel, if any, will be responsible for managing the County's disclosures to market participants.

The County Administrator, in consultation with County Counsel, may utilize the services of a continuing disclosure consultant as well as a dissemination agent (such as Digital Assurance Certification, LLC or "DAC") to assist in meetings its primary and continuing disclosure responsibilities.

Primary Market Disclosure

For all public sales of debt, the County will retain the services of disclosure counsel to prepare the official statement to be used in connection with the offering and sale of debt. The County Administrator will coordinate with, and include in the working group for debt transactions, County Counsel, the Auditor-Controller, other appropriate staff and the municipal advisor to work with disclosure counsel in the development and review of the official statement.

In addition to public sales of debt involving the posting of an official statement to the market, the County may also post other relevant documents (such as bank private placement loan agreements, bank reimbursement agreements, and swap agreements) to the MSRB's Electronic Municipal Market Access ("EMMA") website.

Continuing Disclosure

In addition to the responsibilities required by the trust indentures or agreements pursuant to which debt is issued, the County commits to disclose certain updated financial and operational information after the sale of its debt where necessary to comply with SEC Rule 15c2-12 (governing municipal disclosure) and in the manner described in the applicable continuing disclosure certificate executed with each public offering. Generally, the County is required to distribute an annual disclosure report, which must include or incorporate by reference the County's then current Annual Comprehensive Financial Report and provide specified updates to various tables in the County's official statements as of June 30 fiscal year-end.

In addition, the County agrees in its various continuing disclosure certificates to give notice of certain listed events not more than ten business days after the occurrence of the event.

The County may make certain voluntary event disclosures such as budget reports, projections, and long-term financial plans, by posting such documents to EMMA.

The County Administrator will be responsible for meeting the County's continuing disclosure obligations.

State Reporting Requirements

The County Administrator will submit or cause to be submitted timely reports to the California Debt and Investment Advisory Commission (CDIAC) State law, including the annual debt transparency report required by SB 1029.

Credit Rating Agencies

The County Administrator shall be responsible for maintaining the County's relationships with the credit rating agencies.

Investor Relations

The County Administrator shall be responsible for responding to any investor inquiries in a manner that ensures that all information becomes generally available to all investors.

X. OTHER POST-ISSUANCE ACTIVITIES

The County Administrator, with the assistance of the Auditor-Controller and their staffs, shall be responsible for ensuring that the County's debt is administered in accordance with its terms, federal and State law and regulations, and best industry practices.

Tax Exemption

Tax-exempt bond issues are subject to various IRS rules and regulations regarding the use of bond proceeds. The County shall periodically review and will comply with the specific post issuance compliance procedures identified in the tax documents for its tax-exempt financings.

The County Administrator, with the Auditor-Controller, shall be responsible for maintenance of records, arbitrage rebate compliance (including engaging a rebate consultant), and periodic filings with the United States Treasury to ensure receipt of any federal tax credits or subsidies due the County. The County Administrator will also be responsible for tracking the use of proceeds and the use of bond-financed assets to ensure compliance with federal tax law, and to consult with bond counsel whenever it identifies a change in use, enters into a long-term contract involving the project, or otherwise undertakes an action that could change the tax-exempt status of its bonds.

Investment of Bond Proceeds

Investments of bond proceeds shall generally be consistent with the County's Investment Policy as modified from time to time, and with the requirements contained in the governing bond documents.

Internal Control Procedures

When reasonable, proceeds of debt will be held by a third-party trustee and the County Administrator will submit written requisitions for such proceeds. In those cases where the proceeds of debt are not to be held by a third-party trustee, the County will review and approve expenditures from bond proceeds in the same manner as the approval of expenditures from County revenues.

Attachment 2

COUNTY OF ALAMEDA

FINANCIAL MANAGEMENT POLICY

The County of Alameda has an important responsibility to its citizens to carefully account for public funds, to manage County finances wisely, and to plan the adequate funding of services desired by the public, including the provision and maintenance of public facilities. These responsibilities must be exercised within the context of the County's commitment to Vision 2026 Alameda County's strategic initiative to set a course for the next decade that anticipates community challenges and maximizes our ability to meet residents' needs in a rapidly changing world. Vision 2026 lays the ground work for organizing all County services and activities towards our Shared Visions of a Thriving & Resilient Population, Safe & Livable Communities, Healthy Environment and Prosperous & Vibrant Economy. In these times of fiscal uncertainty, the County needs to ensure that it is capable of adequately funding and providing those government services desired by the community. These policies are intended to establish guidelines to promote the continued financial strength and stability of the County of Alameda.

Financial Management Goals

These goals are broad and timeless statements of the financial position the County seeks to maintain. The financial goals for the County of Alameda are as follows:

1. To deliver quality services efficiently and on a cost-effective basis providing full value for each tax dollar.

2. To maintain a financial base sufficient to sustain an acceptable level of vital services, thereby preserving the quality of life in Alameda County.

3. To have the ability to withstand local and regional economic downturns, to adjust to changes in the service requirements of the County, and to respond to changes in Federal and State priorities and funding as they affect the County's residents.

4. To maintain the highest possible credit rating and reputation for prudent financial management to lower the cost of capital borrowings and to assure the County's taxpayers that County government is well managed and financially sound.

Policy Areas

Policies contained within the following specific policy areas support the above stated goals. They are general statements that guide decision making in specific situations to ensure a decision will contribute to the attainment of the financial goals. Financial policies are proposed in the following areas:

- ***Operating Position Policies***

- ***Revenue Policies***

- ***Expenditure Policies***

- ***Debt Management Policies***

- ***Capital Investment and Improvement Policies***

Operating Position Policies

Operating position refers to the County's ability to balance its budget on a current basis, maintain reserves for emergencies, and maintain sufficient cash to pay its bills on a timely basis.

1. The Count's policy is to pay current operating expenditures with current operating revenues rather than with fund balance. Budgetary actions that fund current expenditures at the expense of future needs by drawing on contingency reserves will be avoided.

2. The County will strive to maintain managed reserves to:

   a. Provide for non-recurring unforeseen expenditures of an emergency nature;
   b. Maximize short-term borrowable capital;
   c. Provide orderly budgetary adjustments when revenues are lost through the actions of other governmental bodies;
   d. Provide the local match or required "maintenance of effort" for amounts of any new funding or grants that may become available during the fiscal year; and
   e. Meet unexpected nominal increases in service delivery costs.

3. As a corollary to the above, the County will strive to maintain an amount up to five percent (5%) of the total General Fund budget within a designated contingency account and maintain the designated fund balance, (General Fund Reserve) at a level of at least two months of expenditures of the General Fund Budget which currently is approximately 16.7 percent of the current General Fund budget. The annual budget account for capital is increased from 5% of discretionary revenue up to 7% of the total General Fund Budget.

4. The County will use available resources for one-time capital or emergency expenditures only if it has an adequate level of long-term resources to fund any resulting recurring costs.

5. The County will prepare a cash-flow analysis of the General Fund on an annual basis. Disbursements, collections and investments will be managed to provide sufficient cash for daily financial needs.

6. The County will prepare quarterly budget position reports summarizing fiscal year-to-date operating revenues and operating expenditures and provide projections for expected year-end position.

Revenue Policies

Revenues determine the County's capacity to provide services and carry out its mandated responsibilities. Unfortunately, the last several decades have seen a steady erosion of the County's ability to generate revenues coupled with a corresponding increase in the burden of unfunded mandates.

1. Within its limited authority, the County will strive to maintain a diversified and stable revenue base as protection from short-term fluctuations in any one revenue source.

2. The County will project revenue for the General Fund and all operating funds each year for at least the next fiscal year. Each existing and potential revenue source will be re-examined each year. Revenue estimates will be realistic and developed in an objective and reasonable manner.

3. The County will strive to improve its revenue position by:

   a) Expanding and diversifying the County property tax base
   b) Seeking to develop additional revenue sources; and
   c) Preserving and, when appropriate, pursuing local option taxes.

4. The County will endeavor to use one-time or special purpose revenues to finance capital projects or for expenditures corresponding to the revenue, and not to subsidize recurring personnel, operating, or maintenance costs.

5. Proceeds from the sale of County surplus properties, when not otherwise earmarked or legally designated to another fund, will be transferred to the Surplus Property Development Fund to be held in trust. Interest earnings generated from the trust will be used in a manner consistent with the policies established for their use.

6. As a goal, County Enterprise Funds should generate revenue sufficient to support the full direct and indirect costs of these funds.

Expenditure Policies

Expenditures are rough measures of the County's service output. The expenditure policies also attempt to measure how low effective the services are and how efficiently they are delivered.

1. The County must maintain a balanced annual operating budget in all general governmental funds.

2. The County will pay for all current operating and maintenance expenses from current revenues and other financing sources.

3. The County will integrate performance and productivity measures into the budget where possible.

4. The County will determine the cost of all externally mandated services, including overhead, and seek reimbursement of such services whenever possible.

5. Adequate funding for all employee benefits and retirement obligations will be provided for in the annual budget.

6. The County will maintain a budgetary control system which will enable it to adhere to the adopted budget.

7. The delivery of services through public and private partnerships will be explored whenever and wherever greater efficiency and effectiveness can be expected.

8. Technology and productivity advancements designed to reduce or avoid increasing operational costs will be implemented whenever possible.

9. The County will maintain an effective risk management program to minimize losses and reduce insurance costs.

10. Arrangements to share services between County departments, other governmental entities and community-based organizations will be encouraged where cost reductions can be achieved and where the quality of service will not be endangered.

Debt Management Policies

Debt is an effective way to finance capital improvements and other long-term obligations; but must be used judiciously to avoid the negative budget and credit rating implications of a heavy debt burden.

1. All debt financings, including conduit lease-purchase financings secured by a General Fund credit, will be subject to review by the County Administrator's Ad Hoc Finance Committee. The Committee will be composed of two members of the Board of Supervisors, the Auditor-Controller, Treasurer-Tax Collector, County Counsel (or his or her designee), and two representatives from the County Administrator's Office, one of whom sits on the committee in an ex-officio capacity.

2. The County will maintain a comprehensive inventory of outstanding debt and will annually update projections on the County's debt capacity.

3. The County will use short-term borrowing only within the context of an annual tax revenue anticipation note financing, except in the case of extreme financial emergency.

4. The County will use long-term debt for only those capital improvements that cannot be readily financed from current or dedicated revenue sources.

5. The final maturity date for any long-term debt will not exceed the expected useful life of the capital improvement so financed.

6. Bond proceeds shall be invested in a manner which achieves a return equivalent to allowable arbitrage yields without compromising security or required liquidity.

7. The County's debt financing program shall be managed so that the annual aggregate net direct debt service obligation of the County will not exceed ten percent of total General Fund revenues.

8. The County will explore the use of special assessments, revenue bonds, general obligation bonds and/or any other available self-liquidating debt instruments whenever possible and appropriate.

9. Whenever possible, advance refundings should be considered when present value savings targets can be achieved.

Capital Investment and Improvement Policies

Much of the County's financial worth is vested in its physical and capital assets – real estate, buildings, and equipment. These assets must be properly maintained and replaced over time to maintain the level and quality of services provided to the public.

1. The County will maintain a comprehensive capital improvements program that is updated each year.

2. The County will base all capital improvements on the County's long-term needs in order to minimize future maintenance and replacement costs.

3. The County will coordinate the prioritization and phasing of capital improvements with anticipated budget position and debt capacity.

4. The County will estimate and consider future maintenance needs for all new equipment and capital facilities prior to deciding to proceed with the project.

5. The County will identify the funding source for each capital improvement prior to deciding to proceed with the project. Intergovernmental and other available offsetting sources will be sought out and used as available to assist in financing capital improvements.

6. The County will provide for the maintenance of capital assets and equipment in the annual budget.

Attachment 3

COUNTY OF ALAMEDA

ACCOUNTING POLICY

I. Objective

This policy is intended to ensure compliance with GAAP[1] in reporting fund balances within the County's governmental funds: General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Permanent Funds. In addition, this policy sets certain policy goals for such fund balances.

II. Scope – Total County

III. Policy Statement

A. **Definition** – Fund balance is the difference between the assets and liabilities reported in the County's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used, primarily depending on the source of revenues. The force behind these limitations can vary significantly, depending upon their source. In accordance with GAAP as defined by the Government Accounting Standards Board, the fund balance reported in the annual financial statements is categorized into five components. Each component identifies the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

1. Nonspendable: Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.

2. Restricted: Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments (such as most State revenues) or 2) imposed by law through constitutional provisions or enabling legislation. Restrictions may effectively be changed with the consent of resource providers.

3. Committed: Resources that are constrained to specific purposes by a formal action of the County's Board of Supervisors, such as an ordinance or resolution (such as the reserves for, pension liability reduction, and capital projects.

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[1]Generally Accepted Accounting Principles

4. Assigned: Resources that are constrained by the County's intent to be used for specific purposes, but that are neither restricted nor committed.

5. Unassigned: Within the General Fund, the residual resources, either positive or negative, in excess of what can be properly classified in one of the other four fund balance categories. Within all other governmental funds, the negative residual resources in excess of what be properly classified as nonspendable, restricted, or committed.

B. **Committed Fund Balances** – The Board of Supervisors, as the highest level of decision-making authority, may commit fund balance for specific purposes pursuant to constraints imposed by formal actions taken, such as an ordinance or resolution (whichever is the higher actions). These committee amounts cannot be used for any other purpose unless the Board removes or changes the specified use through the same type of formal action taken to establish the commitment. The Board's action to commit fund balance must occur prior to the end of the fiscal reporting period; but the amount, if any, which will be subject to the constraint, may be determined at a subsequent period.

C. **Assigning Fund Balances** – This policy delegates to the County Administrator in consultation with the County Auditor-Controller the authority to assign unrestricted fund balance amounts where the County's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

D. **Spending Order** – The County's policy is to apply expenditures to the appropriate fund balance components if they can be specifically identified and in the following order:

1. Apply to restricted fund balance when both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, or

2. Apply to committed fund balance, then assigned fund balance, and finally unassigned fund balance when committed, assigned, or unassigned fund balances are available.

Exception to the above spending order is to be disclosed separately in the annual financial statements.

E. **Minimum Fund Balance**

1. The County has established a General Fund minimum fund balance policy. The County appropriates an annual amount of up to five (5%) percent of the total General Fund budget within a designated contingency account, and is working towards a goal of maintaining a designated fund balance at a level

of at least two months of expenditures of the General Fund budget as calculated by the County's Auditor-Controller Agency. The actual budget account for capital is increased from up to 5% of the total General Fund Budget to up to 7%.

2. The County's policy is to pay current operating expenditures with current operating revenues rather than with fund balance. Budgetary actions that fund current expenditures at the expense of future needs by drawing on contingency reserves will be avoided. The contingency account is established to:

    a) Provide for non-recurring unforeseen expenditures or an emergency nature;

    b) Maximize short-term borrowable capital;

    c) Provide orderly budgetary adjustments when revenues are lost through the actions of other governmental bodies;

    d) Provide the local match required for "maintenance of effort" for amounts of any new funding or grants that may become available during the fiscal year; and

    e) Meet unexpected nominal increases in service delivery costs.

3. The Board of Supervisors has the sole discretion in authorizing the use of this account.

4. The General Fund's minimum fund balance policy is reported in the notes to the annual financial statements. The minimum fund balance is shown in the annual financial statements as committed fund balance.

F. **Stabilization Arrangements**

1. These are funds set aside by the County's Board of Supervisors for use when certain specific circumstances or conditions exist that are not expected to occur routinely.

2. The stabilization arrangement policy is reported in the notes to the annual financial statements and includes:

    a) The authority for establishing stabilization arrangements;

    b) The requirements for additions to the stabilization amount;

    c) The conditions under which stabilization amounts may be spent; and

d) The stabilization balance.

3. The stabilization balance is shown in the annual financial statements as restricted committed or unassigned depending upon the level of constraints imposed upon the use of the funds.

IV. Authoritative Literature

A. Governmental Accounting Standards Board (GASB) Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions. This policy has been prepared in accordance with this GASB pronouncement.

V. Responsibilities

A. Each County department or agency is responsible for complying with this policy.
B. Exceptions to this policy must be **preapproved** by the County's Auditor-Controller.

VI. Contact

A. Auditor-Controller Agency's General Accounting unit for any questions relating to this policy.

RESOLUTION NUMBER R-2024: 482

RESOLUTION AMENDING THE COUNTY OF ALAMEDA'S FINANCIAL POLICIES - DEBT MANAGEMENT, FINANCIAL MANAGEMENT, AND ACCOUNTING POLICIES

WHEREAS, the County of Alameda (County) has an important responsibility to its citizens to carefully account for public funds, to manage County finances wisely, and to plan the adequate funding of services desired by the public, including the provision and maintenance of public facilities; and;

WHEREAS, these financial responsibilities must be exercised within the context of the County's commitment to Vision 2026, the County's strategic initiative that set a course for the last decade that anticipates community challenges and maximizes our ability to meet residents' needs in a rapidly changing world; and

WHEREAS, Vision 2026 lays out the groundwork for organizing all County services and activities towards our shared Visions of a Thriving & Resilient Population, Safe and Livable Communities, Healthy Environment and Prosperous & Vibrant Economy; and

WHEREAS, in these times of fiscal uncertainty, the County needs to ensure that it is capable of adequately funding and providing those government services desired by the community. These policies are intended to establish guidelines to promote the continued financial strength and stability of the County of Alameda; and

NOW, THEREFORE, BE IT RESOLVED, that the Board of Supervisors for the County of Alameda does adopt the amendments to the County's Financial Policies - Debt Management, Financial Management, and Accounting Policies, which are attached and incorporated by this reference.

ADOPTED by the Board of Supervisors of the County of Alameda, State of California, on 8th day of October, 2024 by the following called vote:

AYES: Supervisors Carson, Haubert, Márquez, Tam and President Miley - 5
NOES: None
EXCUSED: None

Nate Miley
Nate Miley, President of the Board

ATTEST:
Clerk of the Board of Supervisors

By: [signature]
Clerk, Board of Supervisors

APPROVED AS TO FORM:
Donna R. Ziegler, County Counsel

by: [signature]
~~Donna R. Ziegler~~ ANDREA WEDDLE
CHIEF ASSISTANT County Counsel

ALAMEDA COUNTY BOARD OF SUPERVISORS
MINUTE ORDER

The following action was taken by the Alameda County Board of Supervisors on 10/08/2024

Approved as Recommended ☑ **Other** ☐

Unanimous ☑ **Tam:** ☐ **Haubert:** ☐ **Miley:** ☐ **Márquez:** ☐ **Carson:** ☐ - 5
Vote Key: N=No; A=Abstain; X=Excused

Documents accompanying this matter:

Resolution: **R-2024-482**

Documents to be signed by Agency/Purchasing Agent:

File No. 31160
Item No. 36

Copies sent to:

Pat O'Connell, QIC 20102

Special Notes:

I certify that the foregoing is a correct copy of a Minute Order adopted by the Board of Supervisors, Alameda County, State of California.

ATTEST:
Clerk of the Board
Board of Supervisors

By: Cheryl Perkins
Deputy