



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR

Kenneth Hahn Hall of Administration
500 West Temple Street, Room 437
Los Angeles, California 90012
Telephone: (213) 974-2101 Fax: (213) 626-1812
ttc.lacounty.gov and propertytax.lacounty.gov

ELIZABETH BUENROSTRO GINSBERG
TREASURER AND TAX COLLECTOR

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January 24, 2025

TO: Audit Committee
Commission Services Division
Chief Executive Office

FROM: Elizabeth Buenrostro Ginsberg
Treasurer and Tax Collector

SUBJECT: **REVIEW OF BOARD POLICY NO. 4.045 – DEBT MANAGEMENT POLICY**

In response to your December 18, 2024, request, we have completed our review of the attached Board Policy No. 4.045 – Debt Management Policy.

After review and consultation by the staff at the Chief Executive Office, Auditor-Controller, and Treasurer and Tax Collector, we recommend that this policy remain in effect, with the following revisions as shown in the red-line version of the attached Policy:

- Adding reference to Section IV - Types and Purposes of Debt, sub-section Long-term Debt, to include judgement obligation bonds and remove reference to a discontinued bond program.
- Adding a new sub-section titled, "Derivatives," to Section IV - Types and Purposes of Debt, to define the County's ability to use derivatives as recommended by Government Finance Officers Association (GFOA) best practices.
- Adding reference to Section VII - Credit Rating Objective, sub-section Continuing Disclosure Requirements and Investor Relations, to use third-party recognized financial industry platforms that serve as repositories for disclosure documents and investor information.
- Updating grammatical changes to various areas of the Policy.

Additionally, it is our recommendation that the policy's new Sunset Review Date be updated to May 6, 2029.

Should you have any questions or require further assistance, you may contact me at (213) 974-2101 or your staff may contact Ms. Teresa Gee, Chief Public Finance Officer, at (213) 974-8359 or tgee@ttc.lacounty.gov.

EBG:LP:TG:ad
doc/Review Board Policy No.4.045-Debt Mgmt. Policy_012425

Attachment

c: Fesia A. Davenport, Chief Executive Officer
Oscar Valdez, Auditor-Controller



Los Angeles County
BOARD OF SUPERVISORS POLICY MANUAL

Policy #:	Title:	Effective Date:
4.045	Debt Management Policy	05/16/17

PURPOSE

Establishes guidelines governing the issuance of debt or other financial obligations, which bear the County of Los Angeles' name or which are repaid by the County of Los Angeles (the "County") or its affiliated agencies, pursuant to the requirements of Senate Bill 1029. This policy provides a framework for debt issuance, capital planning and the post-issuance debt administration process by the County and its affiliated agencies.

REFERENCE

Board of Supervisors Policy No. 4.040 Debt Management Guidelines

Senate Bill 1029 California Debt and Investment Advisory Commission: Accountability reports.

https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB1029

[May 16, 2017, Board Order No. 14](#)

POLICY

SECTION I: OVERVIEW OF DEBT MANAGEMENT POLICY

Purpose & Background

The purpose of this SB 1029 Debt Management Policy (the "Debt Management Policy") is to establish written guidelines governing the issuance of debt or other financial obligations which bear the County of Los Angeles' name or which are repaid by the County of Los Angeles (the "County") or its affiliated agencies pursuant to the requirements of SB 1029, codified as part of Government Code Section 8855. The Debt Management Policy provides a framework for debt issuance, capital planning and the post-issuance debt administration process by the County and its affiliated agencies. The Debt Management Policy was developed by the Treasurer and Tax Collector (the "TTC") in consultation with the Chief Executive Office (the "CEO") and the Auditor-Controller (the "Auditor"). The Debt Management Policy was approved by the County Board of Supervisors (the "Board").

The County recognizes its need to enter into debt obligations from time to time to finance capital infrastructure projects on an interim or permanent basis, address long term

liabilities or to meet its annual cash flow needs. The TTC and the CEO are primarily responsible for the issuance of debt obligations and the ongoing debt administration process for the County.

Objectives

The Debt Management Policy has been developed to meet the following objectives:

- Identifying the purpose of the debt issuance and the use of debt proceeds;
- Identifying the types of debt that may be issued;
- Describing the relationship of debt to the Capital Improvement Program and to the County Budget;
- Ensure the issuance of debt is consistent with the public policy objectives of the County, as determined by the Board; and
- Implementing and maintaining a system of internal controls to ensure that debt proceeds will be directed to the intended use in accordance with all applicable statutory and policy requirements.

Scope

The Debt Management Policy establishes parameters for the issuance of debt securities and other financial obligations of the County and its affiliated agencies, including ~~the County~~, the Los Angeles County Public Works Financing Authority, the Los Angeles County Capital Asset Leasing Corporation, the Los Angeles County Regional Financing Authority, County of Los Angeles Redevelopment Refunding Authority as well as obligations issued through any other joint powers authority of which the County is a member or conduit issuers where the County is the obligor. The Debt Management Policy shall also apply to any property tax-backed revenue bonds, general obligation bonds, tax allocation revenue bonds, special assessment bonds or other land-secured financings, including Property Assessed Clean Energy (PACE) bonds issued by the County or any of its affiliated agencies.

The Debt Management Policy also establishes guidelines for the issuance and the ongoing administration process for debt securities and other forms of indebtedness issued by the County and its affiliated agencies, as well as any ancillary products, instruments and agreements related to the debt, including financing lease obligations. The County recognizes that changes in the capital markets and other unforeseen circumstances may require the issuance of debt securities that deviate from this Debt Management Policy. Subject to Board approval of any debt issuance transaction, the Debt Management Policy allows for exceptions when changes in the capital markets, County programs or other unforeseen circumstances produce situations that require the County to issue debt securities that are not covered by or deviate from this Debt Management Policy. The Debt Management Policy is subject to periodic review and update by the TTC and the CEO, subject to approval by the Board, either as the result of material changes in market conditions, best practices, or if any legal and/or regulatory requirements warrant such an update.

SECTION II: RELATIONSHIP OF DEBT TO CAPITAL IMPROVEMENT PROGRAM AND COUNTY BUDGET

Capital Improvement Program – The CEO shall assess and identify the capital needs of the County and review the current Capital Improvement Program to determine when facilities should be improved or acquired. The CEO shall consult with the TTC and the Auditor to identify potential funding sources and financing options and match those resources to the capital needs identified in the Capital Improvement Program.

To achieve the objectives of the Capital Improvement Program, the TTC shall provide an assessment of conditions in the capital markets and make recommendations to the CEO in regard to the structure of a debt financing project, including the maximum term of the debt, amortization of debt service, optional redemption features, and use of variable or fixed-rate debt, credit enhancement, and other structuring considerations, as further discussed below. The County will issue long-term debt when financing capital improvement projects in order to more effectively align the debt service cost with the estimated useful life and the long-term benefits provided by the capital assets being financed. The County may issue short-term debt in the form of commercial paper notes, bond anticipation notes, lines of credit or other bank products to provide interim financing during the construction phase of a capital improvement project, or as the initial funding vehicle for capital equipment.

Cash Flow Borrowing – The County may issue short-term debt to provide interim financing to cover annual cyclical cash flow deficits. The TTC, in consultation with the CEO and the Auditor, will determine the County’s annual cash flow borrowing needs on a fiscal year basis and issue short-term debt securities structured as tax and revenue anticipation notes (TRANs). The TRANs must be repaid from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the TRANs are issued.

Board Approval and Budget Integration – All debt issuances must be approved by the Board. The Board may approve transactions that deviate from the Debt Management Policy, if such transactions are deemed to be in the best interest of the County and upon the recommendation of the TTC and the CEO. The decision to incur new indebtedness should be integrated with the Board’s policy decisions embedded in the County’s adopted Budget. The debt service obligations related to outstanding debt shall be appropriated on an annual basis and included in the County’s adopted Budget. Subject to Board approval of each debt financing project, the TTC has primary responsibility for the issuance of debt securities on behalf of the County and its affiliated agencies.

SECTION III: POLICY OBJECTIVES RELATED TO DEBT MANAGEMENT

The County shall pursue the following goals related to its debt issuance program:

- The County shall endeavor to attain the best possible credit rating and lowest possible interest cost for each debt financing, within the context of preserving financial flexibility and meeting current and future capital funding requirements.
- The County shall consider market conditions and current and projected cash flows when determining the timing and structure of debt financings.
- The County shall endeavor to align the term of a debt financing with the estimated useful life of the capital assets subject to the debt financing and allocate the debt service cost to match the long-term benefits provided by such capital assets.
- The County shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.
- The County will strive for effective working relationships with the credit rating agencies, bond investors and other municipal market participants.
- The County will maintain a policy of full and open disclosure in conjunction with all debt financing transactions.
- The County shall continuously review its outstanding debt obligations for economic or cost-effective refunding opportunities and make a determination on a timely basis as to whether to proceed with a transaction to refund outstanding debt securities or other debt obligations.

SECTION IV: TYPES AND PURPOSES OF DEBT

For purposes of this Debt Management Policy, long-term debt obligations have a final maturity longer than one year, and short-term debt obligations have a final maturity of one year or less.

Long-term Debt – The County and its affiliated agencies may issue any debt which is allowed under federal and state law with the approval of the Board. The County may incur long-term debt to finance or refinance the acquisition or improvement of land, facilities, or equipment, or for such other purposes that further the County’s governmental purpose, as well as to pay the costs of issuing the debt, including capitalized interest, and any other reserves such as debt service reserve funds, if required. Such long-term County General Fund debt typically takes the form of lease revenue bonds, but may include other types of long-term bonds, including but not limited to judgement obligation bonds.

The County may also issue special tax bonds pursuant to the Mello-Roos Community Facilities Act of 1982, assessment bonds pursuant to the Improvement Act of 1911 or the Improvement Bond Act of 1915, contractual assessment bonds secured by assessments levied pursuant to the Improvement Act of 1911, PACE bonds ~~issued through the Los Angeles County Energy Program~~, and tax allocation revenue bonds issued on behalf of the Successor Redevelopment Agencies located in the County of Los Angeles. Such debt shall only be issued for the purposes specified and authorized by applicable State law.

Short-Term Debt – The County may issue short-term debt to provide interim financing for capital projects or for annual cash flow borrowings to address cyclical cash flow deficits. Interim financings are accomplished through the issuance of commercial paper notes, bond anticipation notes, lines of credit or other notes or bank products. The County’s annual cash flow borrowings are structured as TRANs on a fiscal year basis. TRANs must be repaid from taxes, income, revenue, cash receipts and other moneys attributable to the fiscal year in which the TRANs are issued.

Refunding Debt – The County shall continuously review its outstanding obligations for economic or cost-effective refunding opportunities. Absent any significant non-economic factors, a refunding should produce minimum net debt service savings (net of reserve fund earnings and other offsets, and taking transaction costs into account) of at least 3% of the par value of the refunded bonds on a net present value basis, using the refunding issue’s True Interest Cost (TIC) as the discount rate, unless the TTC in consultation with the CEO and the Auditor determines that a lower savings percentage is acceptable for issues or maturities with short maturity dates. Additionally, the TTC in consultation with the CEO and the Auditor may determine that there are other, compelling “non-economic” reasons (i.e., removal of onerous covenants, terms or conditions) to issue refunding obligations.

Conduit Debt – Upon the recommendation of the TTC, the Board may consider conduit financings on behalf of non-affiliated agencies and/or private entities. The TTC will evaluate such conduit financings to determine if the transaction complies with the County’s Conduit Financing Policy and aligns with the Board’s strategic plan objectives. The payment of debt service on conduit financings must be a direct obligation of the conduit borrower. If the County is the issuer of bonds in which the proceeds will be used by a separate and non-affiliated governmental agency, the County can rely upon a certification by the non-affiliated governmental agency that it has adopted a ~~D~~ebt Management Policy that contains the information required in Government Code Section 8855(i)(1)(C)-(E).

Derivatives – If and to the extent permitted by law, the County may use interest rate swaps or similar derivatives products and related transactions to meet the financial and management objectives of the County as outlined in this policy.

SECTION V: TERM AND STRUCTURE OF DEBT

Term of Debt – Debt will typically be structured for the shortest period possible, consistent with a fair allocation of costs to current and future users. Although the standard term of long-term debt financing is 30 years, the term of the debt should not exceed the estimated useful life of the asset being financed.

Debt Repayment Structure – In structuring a debt financing, the County typically will seek to amortize the debt with level debt service payments over the estimated useful life of the asset being financed. However, the County shall consider matching the amortization of the debt with any future cash flows generated by, or related to the capital asset being financed. Debt financings with un-level or alternative repayment structures shall be considered when one or more of the following conditions exist:

- Natural disasters or extraordinary unanticipated external factors make payments on the debt in the early years prohibitive;
- Alternative structuring is beneficial to the County's overall debt portfolio and financial condition; or
- Alternative structuring will more closely match the repayment of the debt with projected cash flows generated by or related to the capital asset being financed.

Bond Maturity Options – For each issuance, the County will select serial bonds or term bonds, or both. The decision to use serial or term bonds is typically driven by market conditions.

Interest Rate Structure – The County may issue fixed or variable rate debt based on its financing needs and market conditions.

Credit Enhancement – Credit enhancement may be used to improve or establish a credit rating on a County debt obligation. Types of credit enhancement include letters of credit, bond insurance and surety policies. The TTC will recommend the use of credit enhancement if it reduces the overall cost of the proposed financing or if the use of such credit enhancement furthers the County's overall financial objectives.

Debt Service Reserve Fund – The County shall allocate a portion of the proceeds from a debt financing to a debt service reserve fund if required by market conditions or the credit rating agencies to achieve the lowest possible cost of financing. The TTC, in consultation with its external financing team (underwriters and municipal advisors) may recommend not using a debt service reserve fund if there will be no adverse impact to the County's credit rating or interest cost of the debt financing.

Per federal tax rules, the size of the reserve fund on tax-exempt bond issuance shall be the lesser of:

- 10% of the initial principal amount of the debt;
- 125% of average annual debt service; or
- 100% of maximum annual debt service.

In lieu of holding a cash funded reserve, the County may substitute a reserve surety bond or other credit instrument in its place, if such alternative reserve instruments provide a more cost-effective solution to the debt financing.

Call Options / Redemption Provisions – A call option or optional redemption provision gives the County the right to prepay or retire debt prior to its stated maturity date. This option may permit the County to achieve interest savings in the future through the refunding of the bonds. Often the County will pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. Because the cost of call options can vary depending on market conditions, an evaluation of factors shall be conducted in connection with each issuance. The TTC in consultation with its external financing team shall evaluate and recommend the use of call options or early optional redemption provisions on a case-by-case basis.

SECTION VI: Method of Sale and Disclosure Requirements

The County may issue debt securities that are purchased by a single underwriter or an underwriting syndicate, either through a competitive sale or a negotiated sale. A negotiated sale may involve the sale of securities to investors through an underwriter or the private placement of the securities directly with a financial institution or other sophisticated investor. The TTC, in consultation with its municipal advisor, will recommend the method of sale that will be most beneficial to the County in terms of a lower cost of financing, more favorable structuring terms and market conditions.

Initial Disclosure Requirements – The County acknowledges the critical importance of its disclosure responsibilities. Under the guidance of its Bond Ccounsel or Disclosure Ccounsel, the County will distribute or cause an underwriter to distribute its Preliminary Official Statement and final Official Statement (neither is typically required in a private placement, although in some cases a “private placement memorandum” may be required by the investor).

The County's, its Bond or Disclosure Ccounsel and other members of the County's external financing team shall be responsible for soliciting “material” information (as defined in Securities and Exchange Commission Rule 10b-5) from appropriate County departments and the County shall identify the appropriate County personnel who may have information necessary to prepare portions of the Official Statement or review portions of the Official Statement. In doing so, the County shall confirm that the Official Statement accurately contains and states all “material” information relating to the decision to buy or sell the subject bonds and that all information in the Official Statement has been critically reviewed by the appropriate County personnel.

In connection with an initial offering of securities, the County, its affiliated agencies and members of the external financing team shall:

- Identify material information that should be disclosed in the Official Statement;
- Identify other persons who may have material information (contributors);
- Review and approve the Official Statement; and
- Ensure compliance with federal and state security laws, including notification to the California Debt and Investment Advisory Commission (“CDIAC”) of the proposed debt issue no later than 30 days prior to the sale of any debt securities, and submission of a final report of the debt financing to CDIAC by any method approved by CDIAC.

SECTION VII: CREDIT RATING OBJECTIVE

Credit ratings are a reflection of the general financial condition of the County and the capabilities of its management. Typically, higher credit ratings for an issuer are associated

with lower interest rates on a debt financing. The County recognizes that a commitment to prudent financial management, systematic capital planning, and comprehensive long-term financial planning can enhance its credit ratings.

The most familiar nationally recognized bond rating agencies are Standard and Poor's, Moody's Investors Service, and Fitch Ratings. When issuing a credit rating, rating agencies consider various factors including but not limited to:

- Overall financial condition;
- Management capabilities;
- Economic and political conditions that may impact the reliability of debt repayment;
- Financial reserve levels;
- Debt history and current debt portfolio;
- Additional long-term obligations, such as pensions and other post-element benefits;
- Credit features and issues related to the project being financed with debt;
- Covenants and conditions in the legal documents governing the debt financing.

Bond Ratings – The TTC in consultation with its external financing team shall assess the need for one or more credit ratings for the debt financing. When applying for a credit rating on a debt financing, the TTC, in consultation with the CEO, the Auditor and the external financing team, shall prepare a credit presentation for the target rating agencies.

Rating Agency Communications – The TTC is primarily responsible for maintaining strong working relationships and ongoing communication with the rating agencies that evaluate the County's financial condition and credit quality.

SECTION VIII: POST ISSUANCE ADMINISTRATION AND INTERNAL CONTROLS

Notification to CDIAC – The County shall work with its bond counsel to submit a report of final sale to CDIAC by any method approved by CDIAC no later than 21 days after the sale of the debt. The report shall include the information required by CDIAC.

Investment of Bond Proceeds – The TTC shall direct the investment of bond proceeds, including project funds, reserve funds and other funds in accordance with each indenture or trust agreement related to a debt financing. All investments will be made in accordance with the County's Investment Policy. The investment of bond proceeds shall comply with federal tax law requirements specified in the indenture or trust agreement and the tax certificate.

The trustee or fiscal agent will be responsible for recording all investments and transactions relating to the proceeds and for providing monthly statements regarding the investments and transactions.

Use of Bond Proceeds – The CEO is primarily responsible for ensuring debt proceeds are spent in accordance with the intended purposes and requirements identified in the related legal documents and that the proceeds are spent within the time frames identified in the tax certificate prepared by bond counsel.

Continuing Disclosure Requirements – The TTC is responsible for ensuring that the County's annual financial statements, continuing disclosure reports and material event notifications are posted on the County's [industry](#) web site [and/or third-party industry recognized platform](#) and/or the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. The County may also contract with third-party consultant(s) to comply with its continuing disclosure obligations, and with Securities and

Exchange Commission Rule 15c2-12(b)(5). The County shall submit an annual report to CDIAC for any issuance of debt for which it has submitted a report of final sale on or after January 1, 2017. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

Arbitrage Rebate Compliance and Reporting – The use and investment of bond proceeds must be monitored to ensure compliance with Internal Revenue Code arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebates paid to the Federal Government every five years and as otherwise required by applicable provisions of the Internal Revenue Code and Treasury regulations. The Auditor is responsible for performing timely and accurate arbitrage calculations and making any required arbitrage rebate payments. The County has the option to contract with external consultants to ensure that proceeds and investments are tracked in a manner that facilitates accurate and complete calculations, and if necessary timely rebate payments.

Compliance with Other Bond Covenants – In addition to financial disclosure and arbitrage, the County is also responsible for verifying compliance with all covenants and agreements related to each debt financing. The TTC has primary responsibility for ensuring or monitoring compliance with the following types of bond covenants:

- Annual appropriation of revenues to meet debt service payments;
- Taxes/fees are levied and collected where applicable;
- Timely transfer of debt service payments to the trustee;
- Compliance with insurance requirements;
- Compliance with rate covenants; and
- Post-issuance procedures established in the tax certificate for any tax-exempt debt.

Records Retention – A copy of all relevant documents and records will be maintained by the County through the final maturity of the debt financing plus ten (10) years. Relevant documents and records will include sufficient documentation to support the requirements related to maintaining the tax-exempt status of the debt financing.

Investor Relations – Information that the County intends to make available to the investing public, including bondholders, rating analysts, investment advisors, or any other members of the investment community shall be filed on the EMMA website and/or the County website [and/or a third-party industry recognized platform](#).

RESPONSIBLE DEPARTMENT

Treasurer and Tax Collector

Chief Executive Office

Auditor-Controller

DATE ISSUED/SUNSET DATE

Issue Date: May 16, 2017

Sunset Date: May 16, 2021

Review Date: February 17, 2021

Sunset Date: May 16, 2025

Review Date: _____ **February 19, 2025**

Sunset Date: _____ **May 16, 2029**