

COUNTY DEBT POLICY

The County has a separate policy that covers the issuance, management and administration of the County's portfolio of long term debt. The policy requires, in general, that:

1. Debt will not be used to finance ongoing operational costs.
2. Whenever possible, the County will pursue alternative sources of funding in order to minimize the level of debt.
3. That whenever practical, voter approval on the method of debt shall be utilized.

More specifically, the policy includes guidelines on the following elements:

1. The policy allows for the issuance of variable rate obligations to the extent that they do not exceed 25% of total debt outstanding.
2. The policy details the guidelines to be followed prior to the issuance of variable rate debt including feasibility, structure, and annual analysis to determine advisability of conversion to fixed rate debt.
3. The policy requires that the term of bonds be no longer than the economic useful life of the property, or in excess of available payment streams.
4. The policy requires annual review of the County's portfolio of long term obligations to initiate any type of restructuring, refunding, or refinancing beneficial to the County.
5. The policy outlines requirements for the investment of bond proceeds.
6. The policy outlines the responsibilities of the County's Debt Advisory Committee, which is a formal committee of the Board of Supervisors. These responsibilities include oversight and review of all debt policy and debt issuance activities and to make recommendations to the Board of Supervisors regarding appropriate actions on debt matters.

CASH FUNDED PROJECTS

As detailed above, County policy requires prudent management of liabilities and, whenever possible, alternative sources of funding in order to minimize the level of debt. In the past several years, the County has satisfied certain portions of its capital needs without the issuance of long term debt. This includes the major projects listed below:

- The cash purchase of the Adelanto Adult Detention Facility. This project was completed in January 2006.
- The cash purchase and renovation of an office building in downtown San Bernardino. This project was completed in July 2007.
- The cash funding of a major remodel of the 6th floor of the Arrowhead Regional Medical Center to convert it from administrative space to a medical/surgery wing. This project was completed in October 2009.
- The cash funding of a new medical office building at the Arrowhead Regional Medical Center. This project was completed in September 2010.
- The cash funding of a new High Desert Government Center in Hesperia. This project was completed in October 2010.
- The cash funding of the new Central Valley Juvenile Detention and Assessment Center. This project was completed in February 2011.
- The cash funding of the County's portion of the Adelanto Adult Detention Facility Expansion which is funded by a combination of state grant monies and a County contribution. Construction commenced in December 2010. Estimated project completion is late 2013.
- The cash funding of a Downtown Building Project in the City of San Bernardino (in progress).
- The cash funding of a Public Safety Operations Center at the High Desert Government Center. Estimated completion date is June 2013.



COUNTY BUDGETING POLICY AS IT RELATES TO LONG TERM DEBT

The County's Budgeting Policy includes policies related to long term debt of the County. These include:

1. Retirement System Funding - Requires that the Board first consider setting aside any savings related to negative Unfunded Accrued Actuarial Liability to fund a reserve for reduction of any existing pension obligation bonds or as a hedge against future interest rate increases.
2. Use of Variable Rate Interest Savings - Requires that when amounts budgeted for variable rate interest expense on long-term debt exceeds actual variable rate interest expense for the year, that such savings will be used in the succeeding fiscal year to reduce the outstanding principal of long-term debt. This applies only to debt service paid from discretionary revenue sources of the general fund. It is normal for budgeted amounts to exceed actual amounts because debt covenants require conservative budgeting of variable rate interest expense.

Note: The County currently has no variable rate debt service that is paid from discretionary revenue sources of the general fund. The County optionally redeemed all such certificates of participation in September 2010.

3. Use of Savings from Interest Rate Swap Agreements Associated with the Issuance of Debt - Requires that any County benefit realized on interest rate swap agreements, when there is a potential mismatch between swap payments and debt service payments, be retained as a contingency to offset the County's share of increases in debt service caused by the swap agreement. This contingency amount will not exceed \$5.0 million per interest rate swap agreement.

Note: The County currently has no interest rate swaps outstanding and has no plan to enter into an interest rate swap.

COUNTY LONG TERM DEBT

The following discussion relates to long-term debt backed by the full faith and credit of the County's general fund⁽¹⁾. Other long term debt, such as that of the County's special districts are included in separate budget documents prepared for those entities.

The County's outstanding long term debt has been issued for the following purposes:

- To finance or refinance construction and improvement of County structures.
- To refinance County pension obligations.
- To finance improvements at the County owned landfills.

The County finances such projects with a variety of debt instruments. For construction and improvement projects, and for the improvement projects at the County landfills, the County has utilized lease obligations with a non-profit public benefit corporation. Such obligations are in the form of Certificates of Participation and, for the 2012 refinancing of the West Valley Detention Center, a Private Placement with a financial institution. For pension obligations the County has issued Pension Obligation Bonds.

(1) In June of 2007 the County privately placed \$18.4 million of revenue bonds for Courthouse improvements. These bonds are secured solely by a surcharge on civil filings that is collected by the local courts. These bonds are not backed by the County's general fund and are, therefore, not included in this discussion. For more information on the surcharge revenues see the 'Courthouse Seismic Surcharge' budget unit on page 370.



As of June 30, 2012, the County's long term obligations include debt issued to finance or partially finance the following projects:

- Construction and equipping of the Arrowhead Regional Medical Center
- Construction of the West Valley Detention Center
- Construction of the Foothill Law and Justice Center and hangars at the Chino Airport
- Improvement projects at County landfills
- Refinancing of a portion of the County's Unfunded Accrued Actuarial Liability in the years 1995, 2004 and 2008.

Significant 2011-12 Debt Related Actions

In March 2012, the County refinanced its 2001/02 West Valley Detention Center certificates of participation. The refinancing was privately placed with Bank of America Public Capital Corp. This refinancing resulted in net present value savings of \$3.4 million and annual debt service savings of approximately \$0.5 million.

A summary of long term debt issuances of the County, which includes a reference to the section of the book where the obligation is budgeted, is included on the following pages.



**County of San Bernardino
Outstanding General Fund Certificates of Participation and Pension Obligation Bonds
Budgetary Basis**

| Fiscal Year Ending June 30 | Pension Obligation Bonds | | | | | | Certificates of Participation | | Private Placement | | Total Outstanding General Fund Debt | Fiscal Year Ending June 30 |
|-------------------------------------|---|-------------------|--|--------------------|---|--------------------|--|------------------|---|------------------|--|-------------------------------------|
| | 2008 | | 2004 | | 1995 | | 2002 | | 2012 | | | |
| | Pension Obligation Bonds \$160,900,000 | | Pension Obligation Bonds ⁽¹⁾ \$463,895,000 | | Pension Obligation Bonds \$386,265,591 | | Justice Center Refunding \$68,100,000 | | WVDC Refunding ⁽²⁾ \$51,585,000 | | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | | |
| 2013 | 880,000 | 9,524,543 | 14,100,000 | 15,973,653 | 13,160,377 | 32,059,623 | 5,475,000 | 1,106,000 | 6,720,000 | 1,370,058 | 100,369,254 | 2013 |
| 2014 | 865,000 | 9,472,019 | 16,950,000 | 15,139,811 | 12,791,883 | 34,788,117 | 5,585,000 | 887,000 | 7,030,000 | 1,072,743 | 104,581,572 | 2014 |
| 2015 | 920,000 | 9,418,290 | 20,020,000 | 14,127,066 | 12,401,627 | 37,653,373 | 5,950,000 | 607,750 | 7,200,000 | 888,159 | 109,186,265 | 2015 |
| 2016 | 1,035,000 | 9,359,445 | 23,355,000 | 12,918,239 | 12,035,880 | 40,619,120 | 6,205,000 | 310,250 | 7,375,000 | 699,099 | 113,912,032 | 2016 |
| 2017 | 1,060,000 | 9,296,385 | 27,025,000 | 11,491,751 | 11,673,496 | 43,711,504 | - | - | 7,565,000 | 505,305 | 112,328,440 | 2017 |
| 2018 | 1,130,000 | 9,230,466 | 31,015,000 | 9,825,205 | 11,361,080 | 46,888,920 | - | - | 7,755,000 | 306,581 | 117,512,252 | 2018 |
| 2019 | 19,990,000 | 8,594,754 | 16,235,000 | 8,453,186 | 11,054,980 | 50,205,020 | - | - | 7,940,000 | 102,994 | 122,575,933 | 2019 |
| 2020 | 15,860,000 | 7,515,669 | 25,000,000 | 7,179,750 | 10,753,631 | 53,666,369 | - | - | - | - | 119,975,419 | 2020 |
| 2021 | 20,880,000 | 6,409,795 | 25,000,000 | 5,584,250 | 10,507,053 | 57,227,947 | - | - | - | - | 125,609,045 | 2021 |
| 2022 | 26,200,000 | 4,992,687 | 25,000,000 | 3,988,750 | 9,790,585 | 58,119,415 | - | - | - | - | 128,091,437 | 2022 |
| 2023 | 31,875,000 | 3,244,630 | 25,000,000 | 2,393,250 | - | - | - | - | - | - | 62,512,880 | 2023 |
| 2024 | 37,960,000 | 1,142,596 | 25,000,000 | 797,750 | - | - | - | - | - | - | 64,900,346 | 2024 |
| 2025 | - | - | - | - | - | - | - | - | - | - | - | 2025 |
| 2026 | - | - | - | - | - | - | - | - | - | - | - | 2026 |
| 2027 | - | - | - | - | - | - | - | - | - | - | - | 2027 |
| 2028 | - | - | - | - | - | - | - | - | - | - | - | 2028 |
| 2029 | - | - | - | - | - | - | - | - | - | - | - | 2029 |
| Totals | 158,655,000 | 88,201,278 | 273,700,000 | 107,872,659 | 115,530,591 | 454,939,409 | 23,215,000 | 2,911,000 | 51,585,000 | 4,944,939 | 1,281,554,875 | Totals |

(1) Debt schedules for variable rate issues are based on the estimated average interest rate at the time of issuance and do not reflect amounts budgeted for the 2012-13 fiscal year.

(2) West Valley Detention Center

Debt Service Budget Information:

The 1995, 2004 and 2008 Pension Obligation Bonds are budgeted in individual department budgets as a portion of salary and benefit expense.



**County of San Bernardino
Outstanding Enterprise Fund Certificates of Participation
Budgetary Basis**

| Certificates of Participation | | | | | | | | | | | | | |
|-------------------------------|--|------------------|--|--------------------|---|-------------------|--|------------------|--|-------------------|--|----------------------------|------|
| Fiscal Year Ending June 30 | 2008 Solid Waste Series B ⁽¹⁾ \$74,390,000 | | Arrowhead Refunding County Medical Center Series 2009 \$288,730,000 | | County Medical Center Series 1996 \$65,070,000 | | County Medical Center Series 1995 \$147,565,000 | | County Medical Center Series 1994 \$213,605,000 | | Total Outstanding Enterprise Fund Debt | Fiscal Year Ending June 30 | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | | | |
| 2013 | 8,045,000 | 2,967,926 | 10,305,000 | 13,813,888 | 380,000 | 3,194,550 | 3,465,000 | 1,490,938 | 3,990,000 | 6,349,325 | 54,001,626 | 2013 | |
| 2014 | 8,700,000 | 2,391,962 | 10,790,000 | 13,302,063 | 400,000 | 3,174,075 | 3,705,000 | 1,257,913 | 4,205,000 | 6,123,963 | 54,049,975 | 2014 | |
| 2015 | 9,385,000 | 1,769,970 | 11,405,000 | 12,765,688 | 420,000 | 3,152,550 | 3,955,000 | 1,008,963 | 4,445,000 | 5,886,088 | 54,193,258 | 2015 | |
| 2016 | 10,120,000 | 1,099,544 | 11,905,000 | 12,203,638 | 445,000 | 3,129,844 | 4,225,000 | 743,113 | 4,695,000 | 5,634,738 | 54,200,875 | 2016 | |
| 2017 | 10,920,000 | 376,820 | 12,445,000 | 11,605,400 | 465,000 | 3,105,956 | 4,505,000 | 459,388 | 4,965,000 | 5,369,088 | 54,216,651 | 2017 | |
| 2018 | - | - | 13,090,000 | 10,972,838 | 490,000 | 3,081,500 | 4,815,000 | 156,488 | 5,235,000 | 5,088,588 | 42,929,413 | 2018 | |
| 2019 | - | - | 24,405,000 | 10,035,463 | 515,000 | 3,056,375 | - | - | - | 4,944,625 | 42,956,463 | 2019 | |
| 2020 | - | - | 25,685,000 | 8,774,650 | 545,000 | 3,029,875 | - | - | - | 4,944,625 | 42,979,150 | 2020 | |
| 2021 | - | - | 15,015,000 | 7,711,050 | 570,000 | 3,002,000 | - | - | 12,180,000 | 4,518,325 | 42,996,375 | 2021 | |
| 2022 | - | - | 16,330,000 | 6,860,250 | 600,000 | 2,972,750 | - | - | 12,570,000 | 3,746,350 | 43,079,350 | 2022 | |
| 2023 | - | - | 17,165,000 | 5,985,113 | 630,000 | 2,942,000 | - | - | 13,290,000 | 3,035,200 | 43,047,313 | 2023 | |
| 2024 | - | - | 32,355,000 | 4,718,766 | 665,000 | 2,909,625 | - | - | - | 2,669,725 | 43,318,116 | 2024 | |
| 2025 | - | - | 34,065,000 | 3,016,753 | 695,000 | 2,875,625 | - | - | - | 2,669,725 | 43,322,103 | 2025 | |
| 2026 | - | - | 22,935,000 | 1,541,794 | 735,000 | 2,839,875 | - | - | 13,060,000 | 2,343,225 | 43,454,894 | 2026 | |
| 2027 | - | - | 17,900,000 | 469,875 | 7,120,000 | 2,643,500 | - | - | 13,725,000 | 1,673,600 | 43,531,975 | 2027 | |
| 2028 | - | - | - | - | 24,030,000 | 1,864,750 | - | - | - | 13,675,000 | 1,005,694 | 40,575,444 | 2028 |
| 2029 | - | - | - | - | 25,280,000 | 632,000 | - | - | - | 14,335,000 | 340,456 | 40,587,456 | 2029 |
| Totals | 47,170,000 | 8,606,222 | 275,795,000 | 123,777,225 | 63,985,000 | 47,606,850 | 24,670,000 | 5,116,800 | 120,370,000 | 66,343,338 | 783,440,435 | Totals | |

(1) Debt schedules for variable rate issues are based on the estimated average interest rate at the time of issuance and do not reflect amounts budgeted for the 2012-13 fiscal year.

Debt Service Budget Information:

The 2008 Series B Solid Waste Certificates of Participation are budgeted in the Operations and Community Services section of this budget book, in the Solid Waste Management Operations Enterprise Fund budget.

The 1994, 1995, 1996 and 2009 Medical Center Certificates of Participation are budgeted in the Arrowhead Regional Medical Center section of this budget book in the Medical Center Lease Payments budget.



EFFECTS OF EXISTING DEBT LEVELS ON CURRENT AND FUTURE OPERATIONS

Debt service on the Certificates of Participation and Pension Obligation Bonds referenced in the previous schedules will not negatively affect current or future operations of the County. In aggregate, current required debt service expenditures remain relatively level (increasing less than 5% per year) for all fiscal years through 2022-23 and then drop significantly in succeeding years.

OTHER LONG TERM DEBT

The County Library has a note payable to the California Infrastructure and Economic Development Bank for funds borrowed to finance the construction of a library in Apple Valley. This note is backed by the full faith and credit of the general fund; however it is paid from and budgeted in the County Library budget, found in the Operations and Community Services section of this budget book. The outstanding principal amount of this note as of June 30, 2011, the last date for which audited information is available, was \$1,557,153. Annual debt service on this obligation is approximately \$109,000 per year through fiscal year 2030-31.

LEGAL DEBT LIMIT

The County's legal debt limit, which applies only to General Obligation Bonds, is 1.25% of Assessed Valuation. As of June 30, 2011, the last date for which audited information on outstanding debt is currently available, the County's Debt limit and legal debt margin were calculated as follows:

| Fiscal Year | (1) Assessed Valuation | (1) Legal Debt Limit | (1) Bonded Debt | (1) Legal Debt Margin |
|-------------|---------------------------|-------------------------|--------------------|--------------------------|
| 2010-11 | 166,254,714 | 2,078,184 | 1,300 | 2,076,884 |

(1) Amounts in thousands

Source: San Bernardino County Comprehensive Annual Financial Report for the year ended June 30, 2011

The County general fund has no outstanding General Obligation Bonds, and therefore no debt service payments for General Obligation Bonds are budgeted in this document. The Bonded Debt referred to in the table above is the debt of County Service Areas and is included in the budget document published by Special Districts.

