Debt, Obligations and Debt Management Policies

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Contents:

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Introduction

This section of the Recommended Budget book presents:

- an overview of County outstanding debt obligations,
- the objectives of its debt management policy,
- certain obligations overseen by the County Debt Advisory Committee (DAC),
- a description of the various types of the significant short-term and long-term obligations,
- assets set-aside to fund the obligations,
- an overview of the funding status of the obligations, and
- budget policy and practices to fund the annual debt payments.

We have also provided a summary table of the County's liabilities net of accumulated resources. A significant amount of these obligations involve appropriations throughout the County fund structure.

Net Debt Obligations

in millions		Estimated	Payments		Expected	Estimated
	6/30/2018	6/30/2019	Principal	*Interest*	Incr/(Decr)	6/30/2020
Short-term Obligations:						
TRAN	$0.0	$0.0	$0.0	*$0.0*	$0.0	$0.0
Long-term Obligations:						
Certificates of Participation (COPs)	30.7	179.7	(4.4)	*(8.7)*	0	175.3
Capital Bonds & Notes	19.9	16.3	(3.7)	*(0.4)*	0	12.6
Capital Leases	1.9	1.7	(0.2)	*(0.1)*	0	1.5
Net Pension Liability	875.9	802.3	0	*0*	0	802.3
Net OPEB Liability	122.3	116.5	0	*0*	0	116.5
Self-Insurance:						
Workers' Compensation Ins	9.5	9.4	0	*0*	(1.9)	7.5
Other Self-Insurance	9.8	9.9	0	*0*	1.0	10.9
Compensated Absences	33.0	34.0	0	*0*	1.0	35.0
Landfill Closure	30.3	31.3	0	*0*	1.00	32.3
Total	**$ 1,133.3**	**$ 1,201.1**	**$ (8.3)**	***$ (9.2)***	**$ 1.1**	**$ 1,193.9**

Debt

The County of Santa Barbara uses debt financing to:
1) fund certain capital assets that support the provision of services by the County; and
2) provide for short-term cash flow requirements.

The decisions to use debt financing are governed by several factors including the nature of the project to be financed, availability of other financing, and the current economic climate. The County's financings adhere to a Board of Supervisors approved debt policy and are subject to reviews by the County DAC. Also, when entering into public market financings they undergo the scrutiny of the credit rating agencies. This policy, the County's current credit ratings and the various forms of debt financing utilized by the County are described in more detail below.

The County's Net Pension Liability and Net Other Post-Employment Benefits (OPEB) Liability are now required by the Governmental Accounting Standards Board (GASB) to be included on the County statement of net position. These outstanding obligations are also described in more detail below.

Debt, Obligations and Debt Management Policies

Objectives of the County Debt Management Policy

- **To Provide Benefits to the Public:**

Identify the benefits, cost savings and the prudent use of debt financing. Invest cash to use municipal assets most effectively and to finance or refinance to maintain the lowest practical cost (i.e. to maximize the use of municipal assets to determine pay-as-you-go or debt financing alternatives).

- **Debt Repayment:**

Establish debt payment schedules that accommodate the ability to pay and synchronize the cost with the benefits or useful life.

- **Capital Outlay:**

Identify the level of debt which the responsible agency is able to carry to use debt most effectively as one among several available financial tools. Closely coordinate with the responsible agency's capital and operating budget processes.

- **Debt Overview:**

Take into account on a continuing basis the impact of debt on the County's credit rating and total debt burden.

Credit Ratings

The County maintains a Standard & Poor's 'SP-1+' rating for short-term notes and a Standard & Poor's 'AA+' for long-term certificates of participation.

In addition, in October 2016, Moody's upgraded the County's series 2008 Certificates of Participation from Aa3 to Aa2.

Standard & Poor's, in its most recent June 12, 2013 credit profile, affirmed its 'AA+' rating to the County's appropriation debt.

The rationale behind the rating reflects the rating agency's view of:

- The long–term general creditworthiness of the County; and
- The County's covenants to budget and appropriate lease payments.

The 'AA+' rating is based on the following long-term strengths of the County:

- A stable, moderately growing economic base with access to the broader Ventura and Los Angeles area economies;
- Consistent maintenance of very strong unreserved general fund balances despite limited financial flexibility due to state mandates;
- An experienced management team that has implemented strong financial policies and prudent expenditure controls; and
- Low overall debt levels.

Debt, Obligations and Debt Management Policies

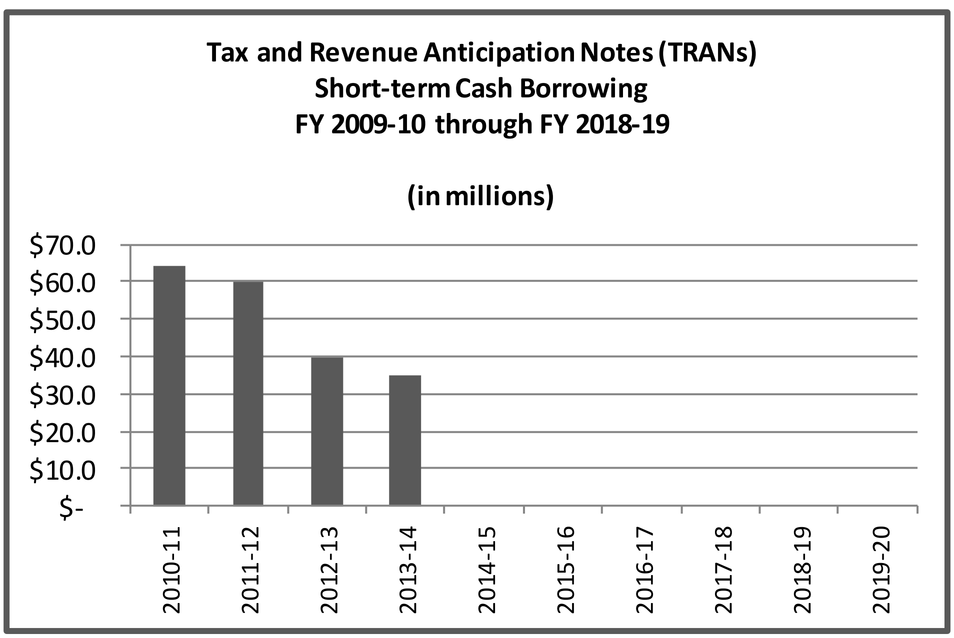
Standard & Poor's, in its most recent May 29, 2013 rating of the County's fiscal year (FY) 13-14 $35,000 Tax and Revenue Anticipation Notes (TRAN), states that the 'SP-1+' short-term rating "reflects the County's very strong underlying general credit characteristics, as well as strong County-projected note repayment coverage of 1.78x at maturity; and very strong County-projected coverage of 3.21x at maturity if including additional borrowable liquidity of various other funds".

Debt Service Ratios

The following bonded debt service ratios include the County's Certificates of Participation (COP's), Capital Bonds and Capital Leases. The ratio of total budgeted debt service to revenue estimates for all County Funds is 0.70%.

Short Term Obligations

During the course of the fiscal year, the County may experience a temporary shortfall in cash because of the unequal timing of expenditures and the receipt of revenues. The biggest factor is that the majority of property taxes for the fiscal year are collected in December and April while expenditures such as payroll occur throughout the year. To mitigate these cash flow imbalances, the County borrows cash through the issuance of Tax and Revenue Anticipation Notes (TRANs). These notes mature within twelve months after date of issuance and are therefore considered short-term obligations. The County borrows and repays the TRAN within each fiscal year. The chart shows TRAN borrowings since FY 2009-10. FY 2018-19 available cash balances will be sufficient to provide for operational cash requirements and a TRAN will not be issued.

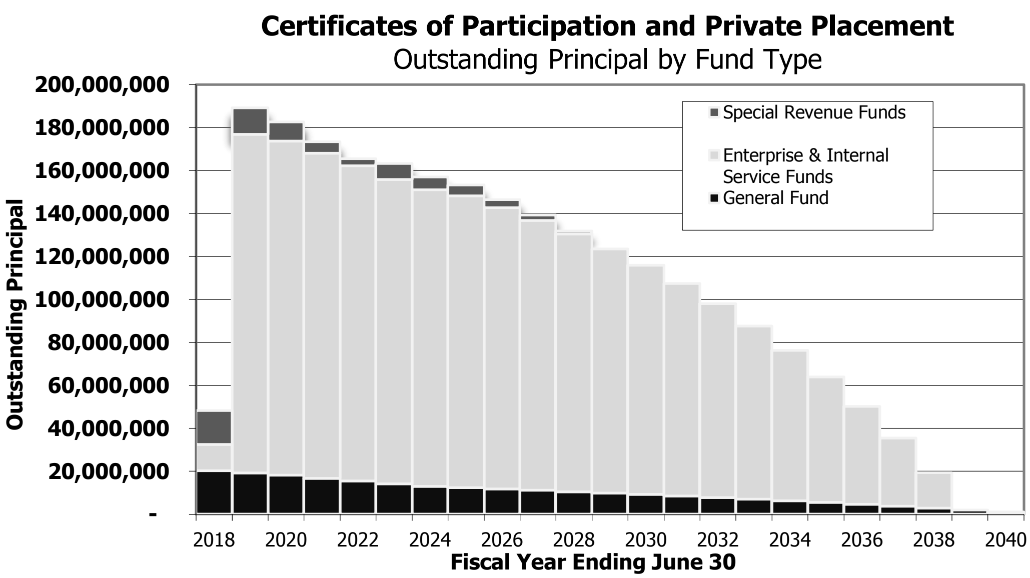


Debt, Obligations and Debt Management Policies

Long Term Obligations

- **General Obligation Bonds (GO Bonds)** are debt instruments issued by local governments for the acquisition or improvement of real property. The repayment stream is an additional ad valorem property tax to pay annual debt service. Since the passage of Proposition 13 in 1978, they require a supermajority voter approval. The County has no outstanding General Obligation Bonds.

- **Certifications of Participation (COPs), Capital Bonds and Notes** are sold to investors to raise funds for the financing of capital infrastructure. The repayment of these COPs, Capital Bonds and Notes are secured by pledged revenues of the County annually appropriated as part of the County budget. The outstanding principal amounts as of 6/30/2018 are COPS $30.7 million, Capital Bonds and Notes $19.9 million. In fiscal year 2018-19, a COP for $149 million was issued to finance the Tajiguas Resource Recovery Project. The repayment of the total outstanding principal of $194.6 million is displayed on the following graph by fund type as part of the annual operating budget. In addition to principal, $120.34 million of interest will be paid over the remaining life of the bonds.

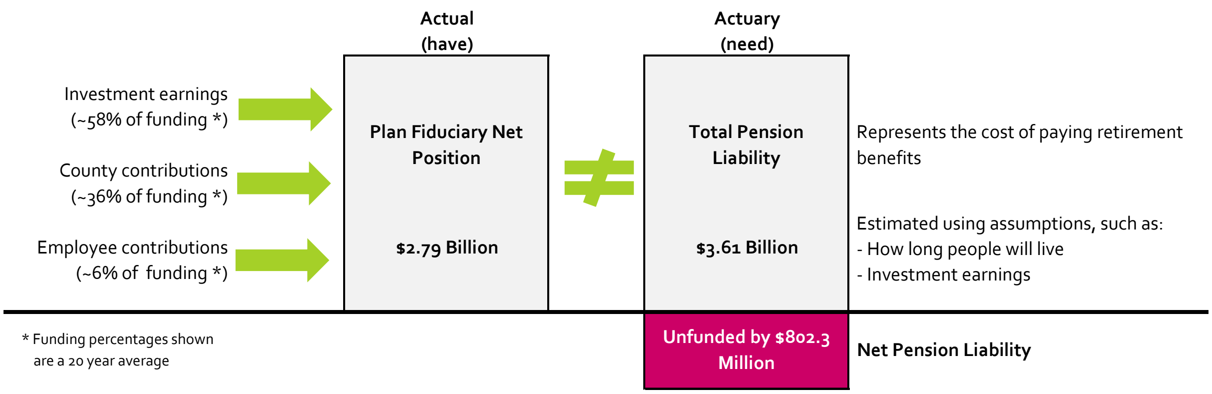


- **Capital Leases** are financing instruments sold to investors or leasing finance companies to raise cash to acquire capital assets. When all the lease terms and conditions are met, the related asset becomes the property of the County. At June 30, 2017, capital lease liabilities totaled $2.0 million, not including financing costs. Outstanding interest for capital leases totaled $0.5 million. Annual lease payments are appropriated in the operating budget.

- **Pension Obligation Bonds (POBs)** are financing instruments used to pay some or all of an entity's unfunded pension liability. The bonds must be issued on a taxable basis and the proceeds are transferred to the issuer's pension system as a prepayment of all or part of the issuer's unfunded pension liability. The proceeds are then invested by the pension system. These bonds function as arbitrage instruments and come with interest rate return risks. The County of Santa Barbara has no outstanding Pension Obligation Bonds.

Debt, Obligations and Debt Management Policies

- **Net Pension Liability:** The County provides pension benefits to eligible employees through defined benefit pension plans administered by the Santa Barbara County Employees' Retirement System (SBCERS). These pension benefits are funded by County contributions, employee contributions, and investment earnings, all of which are invested in the pension fund. Each year, an actuary estimates how much is needed by the pension fund to pay future pension benefits. As demonstrated in the graphic below, the shortfall between the assets held in the pension fund and how much is needed to pay future pension benefits is recorded as a Net Pension Liability (NPL) in the County's financial statements.



As shown in the table below, the County's NPL will increase 12.3% from June 30, 2017 to June 30, 2018. This increase is due in part to the change in the assumed rate of return from 7.50% to 7.0%, as well as various other factors. The Plan Fiduciary Net Position as a percentage of the Total Pension Liability, which indicates the funded status of the County's pension obligations, will remain consistent at approximately 75%.

Santa Barbara County Employee's Retirement System
Change in Net OPEB Liability - County of Santa Barbara
(in millions)

Fiscal Year End	2018	2019	Change
Total OPEB Liability	$ 133.7	$ 130.2	-2.6%
Plan Fiduciary Net Position	$ 11.4	$ 16.3	43.0%
Net OPEB Liability	$ 122.3	$ 113.9	-6.9%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	8.5%	12.5%	4.0%

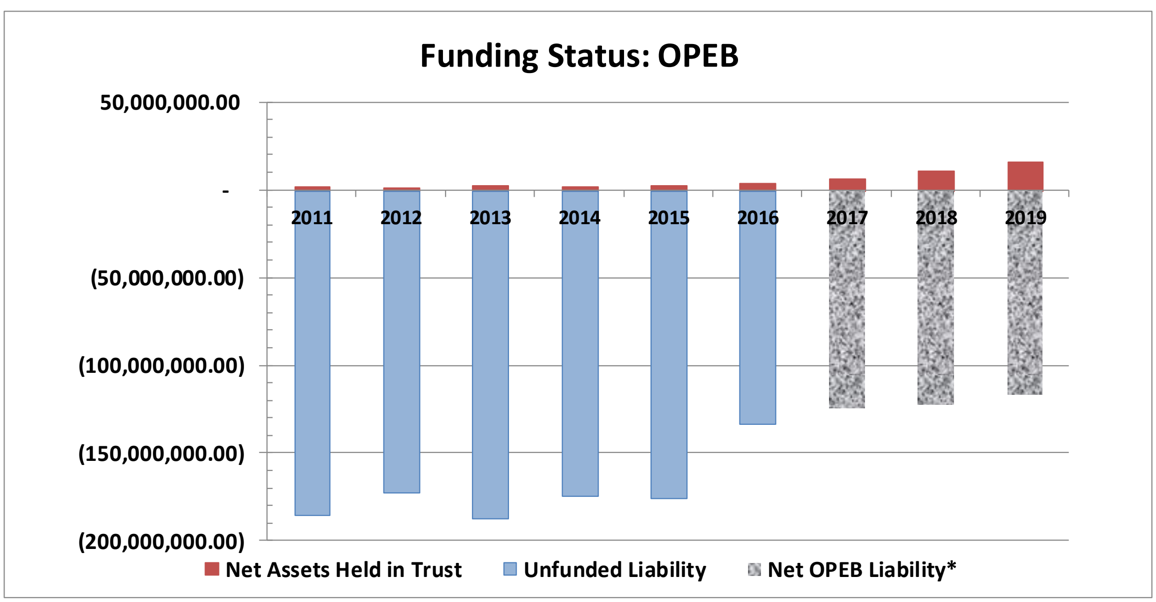
Debt, Obligations and Debt Management Policies

- **Net Other Post Employment Benefits (OPEB) Liability:** The County OPEB plan pays eligible retirees either a portion of their monthly insurance premiums ($15 per month per year of service) or makes a contribution to a health reimbursement account ($4 per month per year of service). The plan was closed to new general members hired after 1/1/13. The current rate of contribution to the OPEB plan is 4% of the County's annual payroll, which funds the cost of the current year's benefit and sets aside assets held is trust by SBCERS to pay future benefits. As shown in the table below, the County's Net OPEB Liability will decrease 6.9% from June 30, 2018 to June 30, 2019. This decrease is due primarily to the increase in assets held in trust to pay future benefits. The Plan Fiduciary Net Position as a percentage of the Total OPEB Liability, which indicates the funded status of the County's OPEB obligations, will increase 4.0%.

Santa Barbara County Employee's Retirement System
Change in Net OPEB Liability - County of Santa Barbara
(in millions)

Fiscal Year End	2018	2019	Change
Total OPEB Liability	$ 133.7	$ 130.2	-2.6%
Plan Fiduciary Net Position	$ 11.4	$ 16.3	43.0%
Net OPEB Liability	$ 122.3	$ 113.9	-6.9%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	8.5%	12.5%	4.0%

As shown below, the funding status of the County's OPEB obligations has improved due in part to the closed status of the OPEB plan as well as the accumulation of resources to pay future OPEB benefits.



* Beginning with June 30, 2017, the County reports a Net OPEB Liability in accordance with new governmental accounting standards.

Debt, Obligations and Debt Management Policies

- **Self-Insurance Liabilities** result from various risk of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical malpractice. For these risks, the County has chosen to establish self-insurance internal service funds to accumulate assets for losses up to certain limits. Excess coverage (coverage above the County limits) is provided by the California State Association of Counties (CSAC) Excess Insurance Authority. Effective July 1, 2010, the County discontinued self-insurance for workers' compensation and began purchasing coverage through CSAC. In addition, the County has established separate self-insurance financing funds for unemployment claims and dental insurance benefits for employees and their dependents. The following chart shows the claims and other liabilities in the self-insurance internal service funds, compared to assets accumulated to pay the claims, for the prior two fiscal years. The County has a seven year budgetary plan to increase rates to eliminate the deficit caused by the remaining self-insurance workers' compensation claims.

Self-Insurance Liabilities
(in millions)

Worker's Compensation Fiscal Year End	**June 30, 2017**	**June 30, 2018**
Self-insurance claim and other liabilities	$ 12.8	$ 12.4
Assets available to pay liabilities	11.7	11.9
Unfunded claim and other liabilities	$ 1.1	$ 0.5
Funded Ratio	91.4%	96.0%

Other Self-Insurance Fiscal Year End	**June 30, 2017**	**June 30, 2018**
Self-insurance claim and other liabilities	$ 9.1	$ 9.8
Assets available to pay liabilities	11.1	11.5
Unfunded claim and other liabilities	$ (2.0)	$ (1.7)
Funded Ratio	122.0%	117.3%

- **Compensated Absences** are related to unused employee vacation balances that could be paid out upon termination. At June 30, 2018 the balance was $34.0 million. These payments are typically absorbed in each department's operating budget on a pay-as-you-go basis.

- **Landfill closure and post closure care liabilities** result from the County's requirements to close landfills once their capacities are reached and to monitor and maintain the sites for 30 subsequent years. The County funds these costs with a combination of a pledge of future tipping fee revenues and an accumulation of restricted cash and investment assets. As of June 30, 2018, the total liability was $31.3 million and $18.3 million is currently accumulated and restricted for this use in the Resource Recovery & Waste Management Enterprise Fund. Annual increases to restricted assets are appropriated in the Enterprise Fund's operating budget.