County of Contra Costa
Debt Report
Fiscal Year 2006-07

Debt Affordability Advisory Committee

January 31, 2008

County Administrator

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John Cullen
County Administrator

Contra Costa County

Date: January 31, 2008

To: John Cullen
County Administrator

FR: Debt Affordability Advisory Committee

RE: **Debt Report for Fiscal Year 2006-07**

We present to you the report of the County of Contra Costa's debt (the "Debt Report") as required pursuant to Section II.A of the County's Debt Management Policy (the "Policy"). The Policy currently requires the Debt Affordability Advisory Committee (the "Committee") to report on the General Fund financings of the County, so that is the focus of this Debt Report. It is anticipated that the Policy will be updated in the future to include agencies of the County such as the Housing Authority, the Redevelopment Agency and special districts, at which point future debt reports will include coverage of financings undertaken by such entities.

Highlights. One of the most important tasks assigned to the Committee is the comparison of the County's performance on a variety of debt factors (a) to published benchmarks for counties and (b) to the cohort of urban counties in California (Section II.C). The Committee notes that, while fundamentals such as assessed valuation are strong, the County's debt performance is somewhat weak when compared to counties nationwide and to its California cohort counties. Of the eight debt factors reviewed by the Committee, the County performed worse than the median on seven factors and better than the median on only one factor. Even with this relatively weak performance, the County has been able to maintain the same double-A credit ratings that stronger-performing counties maintain. This achievement is due, in part, to the County's adherence to its financial management policies and, in part, due to the underlying strength of the County's wealth and assessed valuation demographics. In addition, the County's conservative fixed-rate debt portfolio has shielded the County from the serious and expensive disruptions in the variable rate market since the current financial crisis emerged in the Fall of 2007. Nevertheless, the Committee recommends that the County work toward improving its comparative credit performance so that the gap between the County and its cohort counties will be reduced. Important elements under the County's control that would reduce the gap include:

1. Increasing the unreserved General Fund balance percentage from its current 8.3% more toward the California cohort median (18.7%).

2. Continuing to issue debt prudently and structuring debt issues conservatively to achieve low borrowing costs and maximum Federal and State reimbursements, which is already required under the Policy.

3. Maximizing the County's opportunity to earn allowable arbitrage interest earnings on all indentured funds (such as reserve funds), a practice the County Finance Director has already implemented with the assistance of a registered investment advisor.

4. Monitoring the market for refunding opportunities to reduce debt service costs for capital projects and pension costs.

5. Evaluating alternative funding sources in order to reduce reliance on issuance of lease revenue bonds.

Recommendations. The Committee emphasizes the heightened importance of the County's adherence to its Policy in light of the County's debt performance and the Committee recognizes that it has work to do to maximize the benefits of adherence to the Policy for the County. In addition to elevating the focus of items 2, 3 and 4 in the Highlights above, the Committee makes the following recommendations:

1. Section V of the Debt Report should be updated and provided to the CAO when the Fiscal Year 2006-07 CAFR results are available for the County's cohort group in California. It is very important for the County to be more aware of its relative position among this group. In addition, Section V should also be updated and provided to the CAO if and when Moody's and/or S&P update their respective published benchmarks.

2. The Policy should be updated to require the Committee's review of the debt performance of the Redevelopment Agency and Housing Authority to assure that prudent debt management practices extend to these important debt issuers.

3. Section IV.B should be updated to require the County to issue Requests for Qualifications (RFQs) for financial advisor, bond counsel, disclosure counsel and tax counsel every three years. The County has not had a consistent approach to the issuance of such RFQs in the past and the Committee believes a consistent approach would be beneficial.

4. Section IV.F should be updated to require the County to monitor the comparative performance of its California cohort counties with respect to any OPEB liability posted beginning with the Fiscal Year 2007-08 CAFRs as the rating agencies are likely to begin differentiating counties as this type of data becomes available.

We hope that the information in this Debt Report can be used to support development of sound capital plans and adherence to the County's finance and debt policies. Such capital plans provide critical guidance for the protection of the County's infrastructure and assets. Together with sound capital planning, the County's debt and finance policies secure the County's fiscal strength in the years ahead.

If you have any questions or comments regarding this Debt Report, please contact Lisa Driscoll at (925) 335-1023. Your input is important to us and would be greatly appreciated.

Sincerely,

Members of the Debt Affordability Advisory Committee:

Steven Ybarra, County Auditor-Controller
William Pollacek, County Treasurer-Tax Collector
Dennis Barry, Director/Community Development Department
Lisa Driscoll, County Finance Director

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PREFACE

This Debt Report frequently uses the words "bonds" and "debt" interchangeably, even when the underlying obligation does not technically constitute "debt" under California's constitution. This conforms with market convention for the general use of the term "debt" and "debt service" as applied to a broad variety of instruments in the municipal market, regardless of their precise legal status.[1] The rating agencies and the investor community evaluate the County's debt position based on all of its outstanding debt regardless of the term of the debt and whether or not such debt is repaid from taxpayer-approved tax levies, the General Fund or other sources.

Sometimes referred to as "bonded indebtedness", long-term debt is typically used to finance capital projects with a long useful life but may also be issued in special situations to fund other types of long-term obligations such as unfunded pension costs. This Debt Report presents a complete picture of the County's indebtedness in the categories of General Obligation Bonds, Lease Revenue Bonds and Pension Obligation Bonds.

General Obligation Bonds represent debt that is paid from voter approved taxes that, while levied and collected by the County, are not under the control of the County. The County currently has no outstanding General Obligation Bonds.

Lease Revenue Bonds represent debt that is paid from revenues under the County's control, such as General Fund revenues, to finance long-term capital projects. Pension Obligation Bonds also represent debt that is paid from revenues under the County's control, such as General Fund revenues, but are used to refinance unfunded pension costs at lower interest cost than would be charged by the Contra Costa County Employers' Retirement Association. To assure that issuance of both types of debt is undertaken in a prudent manner that protects the County's operations and fiscal margins, the Board of Supervisors adopted the Policy which prescribes benchmarks against which the combined amount of Lease Revenue Bond and Pension Obligation Bond indebtedness is to be compared. This Debt Report provides a discussion of the County's performance compared to the benchmarks. Generally, the County performs well on demographic measures such as assessed valuation but underperforms on debt ratios as discussed in this Debt Report.

General Obligation Bonds, Lease Revenue Bonds and Pension Obligation Bonds are considered to be "direct debt" of the County and are also included in the measurement of the "overall direct debt" issued by all local public agencies within the County's boundaries. It is important to monitor the levels and growth of direct debt and overall direct debt as they portray the debt burden borne by our taxpayers and serve as proxies for the capacity taxpayers have to take on additional debt in the future.

When debt is issued, independent credit rating agencies assign a rating to the issue. The County's credit ratings are directly related to the financial condition of the County. As of June 30, 2007, the County's implied General Obligation Bond ratings were Aa3 by Moody's Investors Service and AA by Standard & Poor's, reflecting high quality investment grade status. The ratings on Pension Obligation Bonds were A1 (Moody's) and AA- (S&P), and the ratings on Lease Revenue Bonds were A2 (Moody's) and AA- (S&P). The ratings assigned to all County debt issues affect interest

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[1] The legal definition of "debt" excludes short-term obligations such as tax and revenue anticipation notes and long-term obligations such as lease revenue bonds, but this Debt Report presents information on such obligations.

payments and the debt service costs to the General Fund. In addition, the fiscal health of the State can further affect the County's interest costs. The deterioration of the State's credit quality and the massive amount of debt it issued as part of its financial recovery strategy resulted in increased credit spreads for agencies of the State, including the County, even though such agencies may have maintained their own credit quality. A history of the County's long-term credit ratings is provided in this Debt Report.

SECTION I: GENERAL DEBT PROFILE

A. County's Bonded Debt Limitation and Assessed Valuation Growth

In accordance with California Government Code Section 29909, the County's general obligation bonded debt limitation equals 5% of the value of taxable property (i.e., assessed valuation) in the County. For Fiscal Year 2006-07, total assessed valuation in the County was $146.5 billion, resulting in a bonded debt limitation of $7.3 billion. It should be noted that this limit applies to all County-controlled agencies, including the County General and Enterprise funds, the Redevelopment Agency, the Housing Authority and Special Districts. For technical auditing purposes, only pension obligation bonds and tax allocation bonds are counted as "general obligation bonded debt" even though neither form of debt requires voter approval; lease revenue bonded debt and assessment district debt are not required to be included. Table 1 presents the County's debt limit versus current outstanding bonded debt. The difference is the "Legal Debt Margin." Chart 1 shows that the Legal Debt Margin (i.e., the distance between the red and green lines) for the latest 6 fiscal years has been very large and growing, indicating that assessed valuation has been growing more rapidly than net issuance of general obligation bonded debt. However, due to the difficulty of achieving two-thirds voter approval for general obligation bonds issued by counties, the County has not historically benefited from having such large debt capacity. Local agencies like the County generally have not been successful when competing with school districts, transportation agencies and the State for voter approval of general obligation bonds.

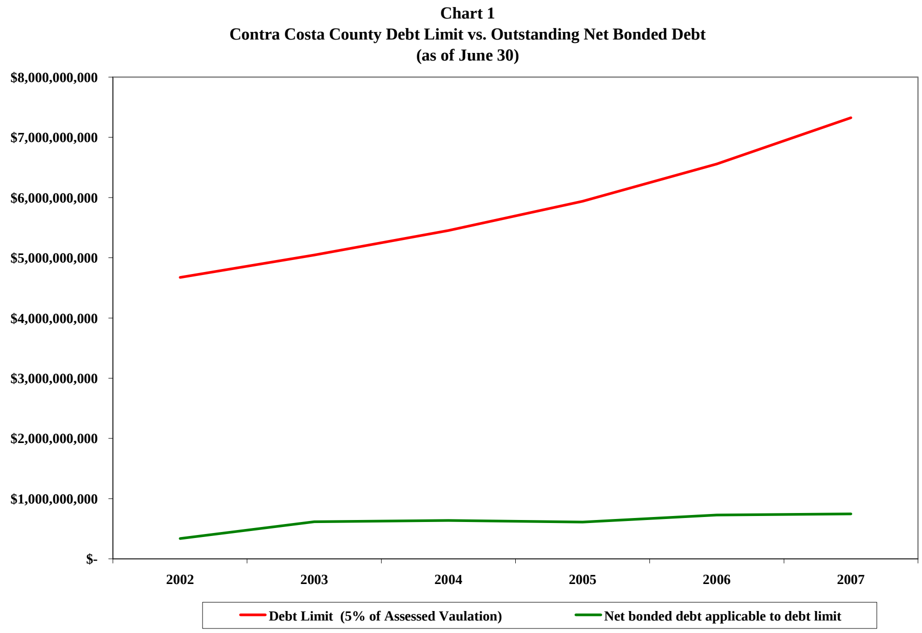
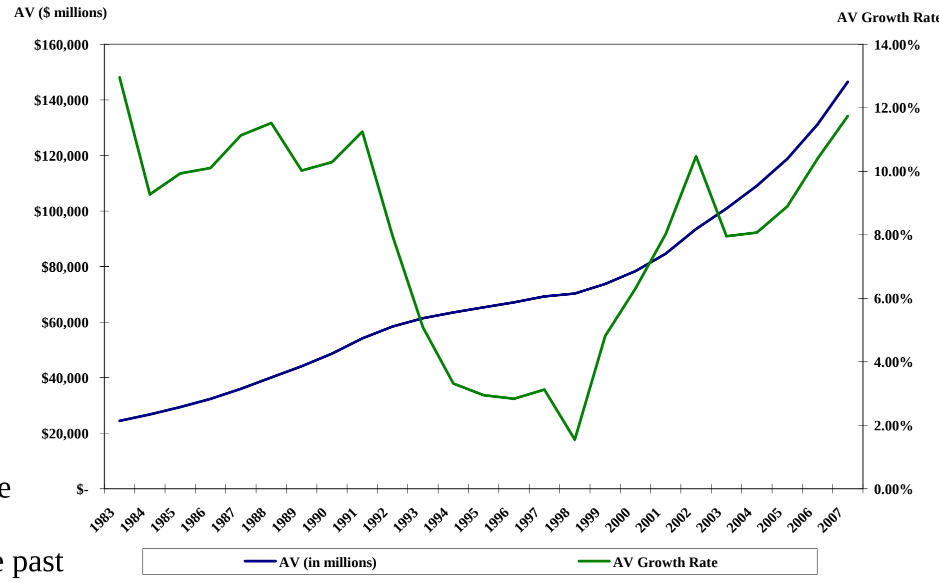


Table 1
Contra Costa County – All Agencies
Bonded Debt Limitation and Legal Debt Margin, Fiscal Year 2006-07
(in $000s)

Total Assessed Valuation	$146,523,465
Bonded Debt Limitation (5% times Assessed Valuation)	7,326,173
Less: Outstanding Bonded Debt	(777,095)
Plus: Amounts Available in Bond Interest and Redemption Fund to Pay Principal	31,034
Equals: Legal Debt Margin	***$6,580,112***

Chart 2
Historical Assessed Valuation
(25 year period)



In addition to the County's debt issuance pattern, the Legal Debt Margin is greatly affected by assessed valuation growth in the County, which is depicted in Chart 2. Assessed valuation typically grows at the maximum annual rate of 2% allowed under Proposition 13 for existing property plus additional growth from new construction and the sale and exchange of property. The annual growth in assessed valuation averaged 8.0% over the last 25 years and averaged a somewhat higher 9.41% over the past 5 years. The County has never experienced a decline in assessed valuation over the latest 25 year period.

B. Bonds Outstanding

As of June 30, 2007, the County had a total of $833.615 million of outstanding Pension Obligation Bonds and Lease Revenue Bonds[1], a detailed listing of which is shown in Table 2 and the debt service requirements for which can be found in Appendix 1. The County's entire debt portfolio is comprised of fixed-rate debt issues. The Debt Policy does not permit variable rate issues such as variable rate demand obligations and auction rate securities, nor does it permit derivatives such as swaps. Even prior to the implementation of the formal Debt Policy, the County had issued only fixed rate issues. This approach shields the County from the risks associated with swaps and variable rate issues such as liquidity risk, renewal risk, tax risk, basis risk and termination risk.

Also presented in Table 2 is the true interest cost (TIC) for each outstanding bond issue for which such information is available. The TIC varies from issue to issue depending upon the term to maturity and the interest rate environment when each respective issue was sold. It should be noted that Pension Obligation Bonds are taxable securities whereas the County's Lease Revenue Bonds are tax-exempt securities. Thus, the TICs for the Pension Obligation Bonds are generally higher than those for Lease Revenue Bonds.

[1] The 2007 Series B bonds were priced on a forward delivery basis on February 22, 2007. Even though the effective date for Table 2 is June 30, 2007, the 2007 Series B bonds are included even though they were not delivered until August 7, 2007. Thus, the total shown in Table 2 will not be the same as that shown in the County's Fiscal Year 2006-07 Comprehensive Annual Financial Report.

Table 2
County of Contra Costa (County Only)
Outstanding Lease Revenue and Pension Obligation Bonds and True Interest Cost
(as of June 30, 2007)

Bond Issues	Date of Issue	Principal Amount Issued ($000s)	Outstanding Principal	True Interest Cost (%)[1]
Lease Revenue Bond Issues (LRBs):				
1998 Refunding Series A (Various Capital Facilities)	05/12/98	$24,694	$20,380	NA
1999 Series A (Refunding and Various Capital Projects)	03/04/99	74,685	28,505	NA
2001 Series A (Various Capital Projects)	01/25/01	18,030	4,915	4.62%
2001 Series B (Various Capital Projects)	05/10/01	23,775	3,510	5.26%
2002 Series A (Various Capital Projects)	06/27/02	12,650	4,290	4.73%
2002 Series B (Refunding and Various Capital Projects)	09/05/02	25,440	15,760	3.97%
2003 Series A (Various Capital Projects)	08/14/03	18,500	9,125	4.46%
2007 Series A (Refunding and Various Capital Projects)	03/14/07	122,065	121,185	4.27%
2007 Series B (Medical Center Refunding)[2]	08/07/07	110,265	110,265	4.27%
	Total LRBs	***$430,104***	***$317,905***	
Pension Obligation Bond Issues (POBs):				
1994 Series A (Taxable)	03/01/94	337,365	87,945	NA
Refunding Series 2001 (Taxable)	03/20/01	107,005	105,055	6.23%
Series 2003 A (Taxable)	05/01/03	322,710	322,710	5.36%
	Total POBs	***$767,080***	***$515,710***	
	Grand Total	***$1,197,184***	***$833,615***	

C. Intended Issuances of Bonds

Intended issuances are based on actual spending patterns and expenditure projections prepared by the General Services Division and other departments and are subject to change. Generally, the County expects to issue lease revenue bonds periodically, but no more than once a year for new money bonds. The County may issue refunding bonds from time to time if significant savings can be achieved. Based upon the latest available County projections, it is expected that approximately $30.3 million of new money projects and a refunding of the 1998 Refunding Series A Lease Revenue Bonds will be undertaken in the fall of 2008.

The County's intended issuance of Lease Revenue Bonds to fund approximately $30.3 million of new projects in Fiscal Year 2008-09 will increase Lease Revenue Bond debt service by approximately $2.6 million annually but will simultaneously reduce annual debt service by about $70,000 if the 1998 Refunding Series A issue is refunded.

D. Refundings

The County Finance Director monitors market conditions for refunding opportunities that, pursuant to the Debt Management Policy, will produce at least 2% net present value savings for each maturity

[1] The yield shown for the Refunding Series 2001 POBs is the arbitrage yield, not the TIC.
[2] The 2007 Series B bonds were priced on a forward delivery basis on February 22, 2007. Even though the effective date for Table 2 is June 30, 2007, the 2007 Series B bonds are included even though they were not delivered until August 7, 2007.

of bonds refunded and a minimum of 4% overall present value savings. Table 3 sets forth the amount of savings achieved on refundings undertaken since 2002. A total of $8.51 million of net debt service savings were achieved over the remaining terms of bonds refunded since 2002. The County's largest refunding occurred in Fiscal Year 2006-07 when $200.9 million of prior Certificates of Participation and Lease Revenue Bonds were refunded as part of the plan of finance for the 2007 Series A and 2007 Series B Lease Revenue Bonds. To the extent that Federal and/or State programs offset debt service cost for projects funded with Lease Revenue Bonds, the County must share the refunding savings attributable to such projects with the Federal and/or State program.

Table 3
Lease Revenue Bond Refunding Savings Since 2002
(as of June 30, 2007)

Refunding Lease Revenue Bond Issue	Amount Refunded ($ millions)	Term of the Refunding Bonds	Savings ($ millions)	Average Annual Savings
2002 Series B	$25.870	18 years	$0.85	$49,906
2007 Series A (advance refunding)	61.220	21 years	3.83	182,380
2007 Series A (current refunding)	26.815	14 years	0.90	64,286
2007 Series B	112.845	15 years	2.93	195,333
Total	***$226.750***		***$8.51***	***$491,905***

In addition to the traditional refundings described above, the County has issued Pension Obligation Bonds in 1994 and 2003 to refinance its then-unfunded actuarial accrued liability (UAAL) with the Contra Costa County Employers' Retirement Association (CCCERA). The County's objective is to pay a lower interest cost on the Pension Obligation Bonds than the actuarial interest cost charged by CCCERA, thereby producing savings for the County. The most recent Pension Obligation Bonds were issued in 2003 in the aggregate principal amount of $322.71 million to refinance the then-existing UAAL of $319.1 million. Unlike traditional refundings where the prior debt service is fixed, the debt service on a UAAL is not necessarily fixed over the term of its amortization; rather, CCCERA's investment performance and/or a number of actuarial assumptions could change from year to year, which would result in the UAAL changing as well. For purposes of determining debt service "savings" from issuance of Pension Obligation Bonds, however, it is typically assumed that the respective UAAL does not change so that the debt service savings are calculated as the difference between the amortization of the respective UAAL and the debt service on the Pension Obligation Bonds. In the 2003 bond issue, total savings were $113.8 million ($73 million on a present value basis) over 19 years for average annual savings of about $6.0 million. The savings reflect the lower interest cost on the bonds (5.36%) versus the 8.35% actuarial interest rate charged by CCCERA at the time.

To the extent that Federal and/or State programs offset debt service cost for projects funded with Pension Obligation Bonds, the County must share the refunding savings attributable to such projects with the Federal and/or State program.

SECTION II: LEASE REVENUE BOND DEBT

The County has issued Lease Revenue Bonds (and, prior to 1998, Certificates of Participation) to fund a variety of capital projects including the construction of the County hospital and regional health clinics, improvements to County social service and employment centers and the acquisition of furnishings and equipment, among others. Debt service on Lease Revenue Bonds is paid from the County General Fund or Enterprise Funds, depending upon which department uses the improvements.

The County has historically issued its Lease Revenue Bond debt in fixed-rate mode, the most conservative and stable mode. The Debt Affordability Advisory Committee does consider alternative modes, such as variable rate and synthetic fixed rate, when recommending the appropriate financing structure for a given project.

Shown in Chart 3 is the amortization of principal by maturity by issue by fiscal year for all outstanding Lease Revenue Bonds. Annual principal amortization ranges from about $15 million to $19 million until Fiscal Year 2023-24 when it declines to about $9.0 million. Chart 4 presents the amortization of outstanding principal by fiscal year.

Chart 3
Outstanding Lease Revenue Bonds
Amortization of Principal by Debt Issue
(as of June 30, 2007)

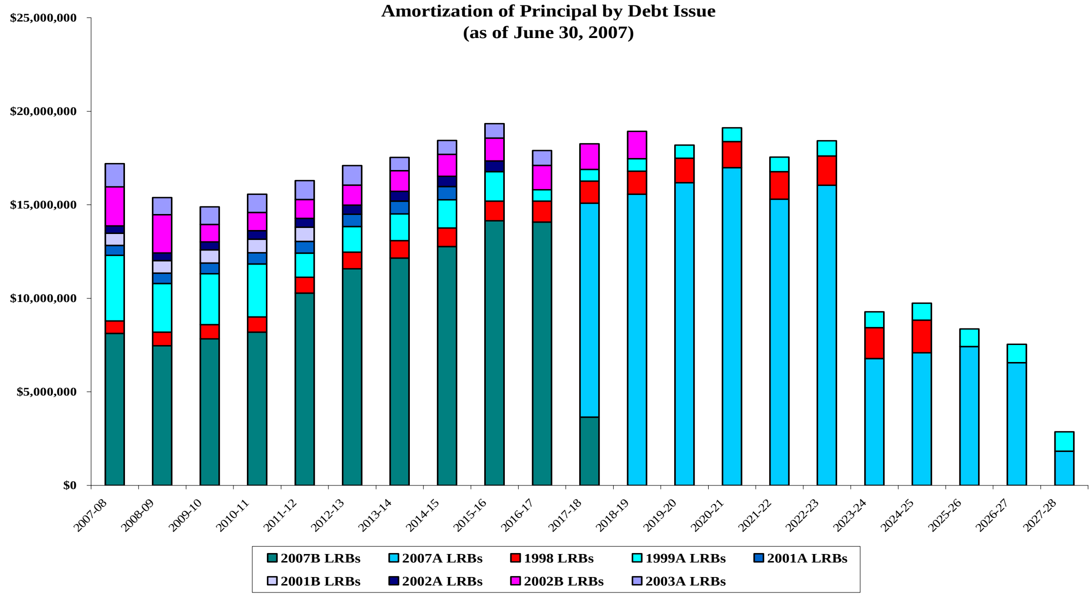
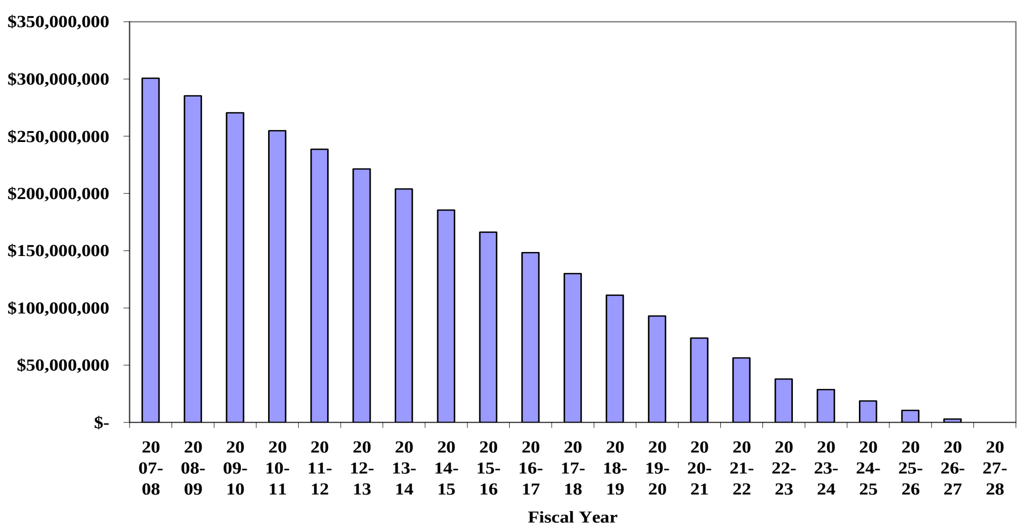


Chart 4
Amortization of Outstanding Lease Revenue Bond Principal Amounts



SECTION III: PENSION OBLIGATION BOND DEBT

The County has issued Pension Obligation Bonds to refinance its then-existing UAAL with CCCERA and to restructure prior Pension Obligation Bonds. Debt service on Pension Obligation Bonds is paid from the County General Fund or Enterprise Funds, depending upon each department's pro-rata share of the respective UAAL being refinanced.

For a discussion of the rationale for issuing Pension Obligation Bonds, see Section I.D herein.

Shown in Chart 5 is the amortization of principal by maturity by issue by fiscal year for all outstanding Pension Obligation Bonds. Chart 6 presents the amortization of outstanding principal by fiscal year. The 1994 and 2001 bond issues both relate to the refinancing of the County's $333.6 million UAAL as of January 1, 1994. The 2001 bond issue restructured a portion of the 1994 bond issue through a tender process and modestly extended by two years the final term to maturity beyond the Fiscal Year 2013-14 final maturity of the original 1994 bonds. When the 2003 bonds were issued to refinance an approximate then-existing $319 million UAAL, the term to maturity on the bonds was equal to the Fiscal Year 2021-22 term to maturity used by CCCERA to amortize the UAAL.

Chart 5
Amortization of Pension Obligation Bond Principal by Debt Issue

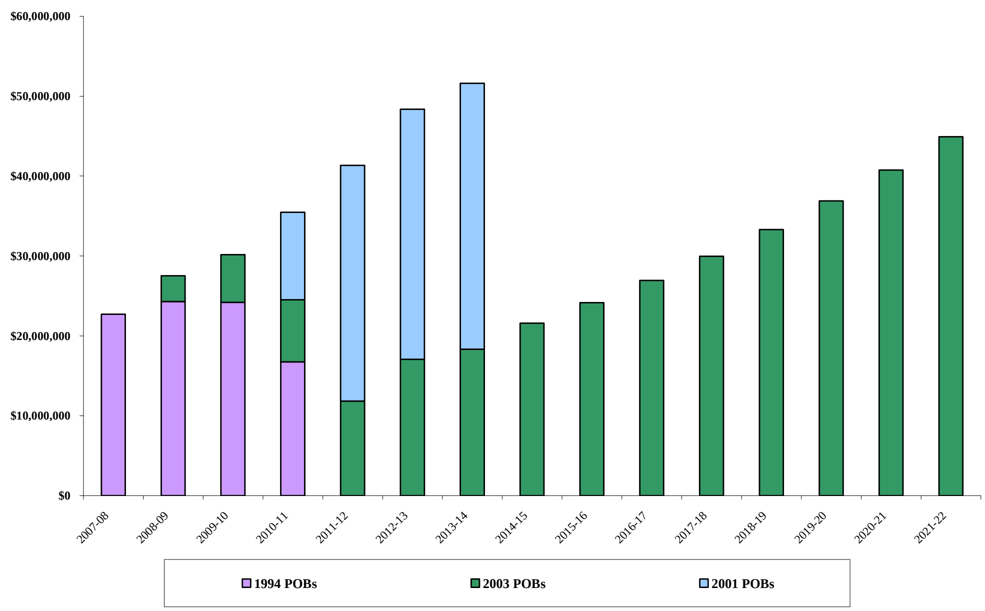
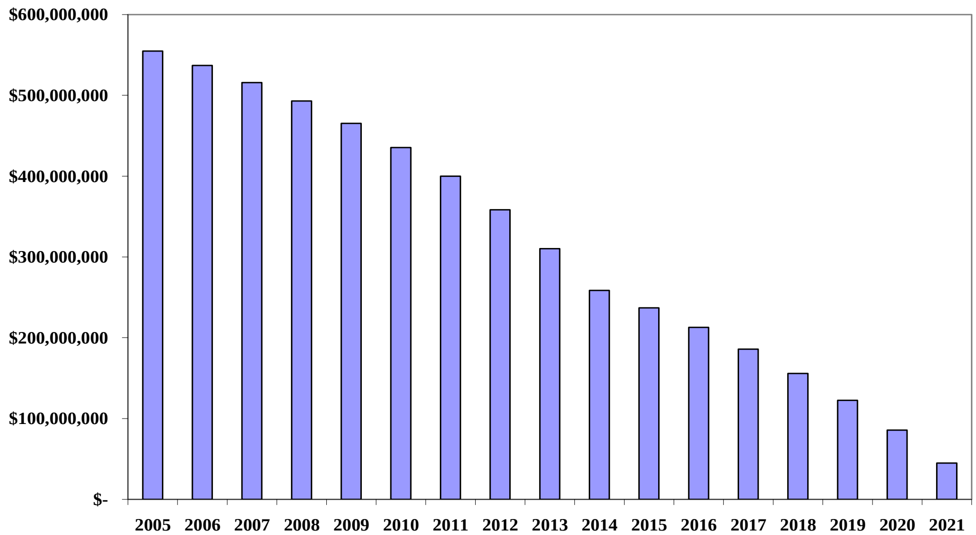


Chart 6
Outstanding Pension Obligation Bonds as of June 1



SECTION IV: THE COUNTY'S CREDIT RATINGS

A. Long-Term Credit Ratings on Implied General Obligation Bonds, Pension Obligation Bonds and Lease Revenue Bonds

Long-term credit ratings provided by a rating agency are an independent assessment of the relative credit risk associated with purchasing and holding a particular bond through its scheduled term of repayment. Long-term credit ratings serve as unbiased opinions of a borrower's financial strength and ability to repay its debt on a timely basis. Long-term credit ratings are one of the most important indicators of creditworthiness readily available to the investment community and have a direct impact on the borrowing rates paid by the County.

Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") currently assign the County an implied General Obligation Bond rating (or "Issuer Rating") of Aa3 and AA, respectively, as shown in Chart 7 below. The County's implied General Obligation Bond ratings are "high quality investment grade" ratings. Moody's and S&P currently rate the County's Pension Obligation Bonds A1 and AA-, respectively. Finally, Moody's and S&P currently rate the County's Lease Revenue Bonds A2 and AA-, respectively. All of the S&P ratings are in the "high quality investment grade" category whereas Moody's ratings range from "upper medium grade" to "high quality investment grade". General Obligation Bond ratings are typically one to two notches higher than those of Lease Revenue Bonds, owing to the superior credit strength of the *ad valorem* property taxes pledged to repay General Obligation Bonds versus the General Fund pledge that supports repayment of Lease Revenue Bonds. The ratings on Pension Obligation Bonds tend to be one notch higher than Lease Revenue Bonds, owing to the "obligation imposed by law" nature of pension costs. Beginning in 2001, Standard and Poor's began to rate lease obligations only one notch (rather than the previous two notches) lower than the issuer's general obligation bond rating; the rationale is that the availability of lease financings is so critical to the issuer's capital funding that the likelihood of repayment and hence, credit strength, is much greater.

In addition to the rating itself, each rating agency publishes an outlook on the rating. Outlooks are either "Positive", "Stable" or "Negative." A "Positive" outlook indicates a possible upgrade in the rating may occur; a "Negative" outlook indicates a possible rating downgrade may occur; and a "Stable" outlook indicates that neither an upgrade nor a downgrade is anticipated to occur.

In December 2005, Moody's downgraded the County's ratings for each type of bond issue by one notch and assigned a Negative outlook to the rating. S&P assigned a Negative outlook in November 2005, but did not downgrade the ratings. These rating actions were largely attributable to a four year trend of reduced fund balances in the General Fund. As of June 30, 2007, both Moody's and S&P had removed their respective Negative outlooks on the County's ratings. Citing the County's improved financial flexibility and reserves, each of the two agencies assigned an outlook of "Stable" to the County's ratings.

Recognizing the importance of maintaining high investment quality ratings, the Board of Supervisors adopted a Reserves Policy on December 20, 2005 that, among other things, establishes a minimum unreserved General Fund balance of 5%. In addition, the Board of Supervisors adopted a Budget Policy on November 14, 2006 that, among other things, requires the County to maintain structurally balanced budgets. A key objective for the County going forward is keeping its unreserved General Fund balance at or above the 5% policy threshold while maintaining structurally balanced budgets so that additional resources will be available to deal with significant fiscal challenges.

Chart 7
Credit Quality Tranches
(County's Implied G.O. Bond Ratings Highlighted in Yellow)
(County's Pension Obligation Bond Ratings Highlighted in Blue) [1]
(County's Lease Revenue Bond Ratings Highlighted in Green)

	Moody's	**S&P**
Best Quality	Aaa	AAA
High Quality	Aa1	AA+
	Aa2	AA
	Aa3	AA-
Upper Medium Grade	A1	A+
	A2	A
	A3	A-
Medium Grade	Baa1	BBB+
	Baa2	BBB
	Baa3	BBB-
Below Investment Grade	Ba1 and lower	BB+ and lower

(1) Both the County's Pension Obligation Bonds and Lease Revenue Bonds are rated AA- by S&P.

A history of the County's implied General Obligation Bond, Pension Obligation Bond and COPs ratings is presented in Appendix 2.

B. Short-Term Credit Ratings on Tax and Revenue Anticipation Notes

The County issued tax and revenue anticipation notes ("TRANs") from Fiscal Year 1979-80 through Fiscal Year 2002-03 and each fiscal year since Fiscal Year 2005-06 to finance periodic cash flow deficits. The County has always received the highest possible short-term ratings from Moody's (MIG 1) and S&P (SP-1+) on its TRANs, reflecting strong cash flows and ample debt service coverage from both the General Fund and intrafund borrowing sources. The rating agencies have cited the accuracy of the cash flows prepared by the Auditor-Controller as a positive factor in the ratings.

SECTION V: DEBT RATIOS

A. Use of Debt Ratios

Pursuant to the County's Debt Management Policy set forth in Appendix 3, the Debt Affordability Advisory Committee must calculate certain debt factors and debt burden ratios, compare them to benchmarks and report the results in this Debt Report. Measuring the County's debt performance through the use of debt ratios provides a convenient way to compare the County's credit performance to other borrowers. The most common debt ratios applied to counties are:

- Ratio of Outstanding Debt to Assessed Value. The ratio is calculated for both the County's "Direct Debt" (i.e., its General Obligation Bonds), and "Combined Direct Debt" (i.e. General Obligation Bonds, Pension Obligation Bonds and Lease Revenue Bonds). In addition, a ratio is also calculated that measures the aggregation of all debt issues attributable to agencies located in the County and is commonly referred to as "Combined Total Debt" or "Overall Debt" in the California Municipal Statistics Overlapping Debt Statement. It is important to monitor the levels and growth of Direct Debt, Combined Direct Debt and Overall Debt as they portray the debt burden borne by the County's taxpayers and serve as proxies for taxpayer capacity to take on additional debt in the future.

- Assessed Valuation Per Capita. The formula for this computation is total Assessed Valuation divided by the population residing within the County's boundaries. This ratio is a measure of the underlying wealth base of the County.

- Ratio of Outstanding Debt Per Capita. The formula for this computation is Outstanding Debt divided by the population residing within the County's boundaries. Ratios can be computed for both "Direct Debt Per Capita" and "Overall Debt Per Capita." It is important to monitor one or both of these ratios as they attempt to measure the degree to which debt is concentrated, i.e. whether it is spread across a large or small population.

- Ratio of Annual Debt Service to General Fund Revenues. The formula for this computation is annual debt service expenditures divided by General Fund revenues as reported in the most recent Comprehensive Annual Financial Report. This ratio focuses on the extent to which annual debt service payments encroach on other funding needs of the County.

- Percentages of Total and Unreserved General Fund Balance. These ratios are important measures of the financial flexibility of the County, i.e. the ability of the County to absorb the impact of unforeseen events and emergencies such as earthquakes, sudden drops in assessed valuation due to real estate market cycles, etc.

B. County's Compliance with Debt Management Policy; Debt Levels Compared to Other Counties

The County is one of the largest counties in California as well as in the United States. On the basis of its size, one could argue that it is appropriate to compare the County to other entities with similar size. However, those types of entities comprise a heterogeneous collection of cities, states, school districts and other public agencies rather than a homogenous group such as counties. Also, the funding of counties across the United States is not uniform. It would be ideal to compare the County to counties in California; however, the published debt ratios are on a national basis except for intermittent reports prepared by Moody's on California counties. In order to use published ratios and to compare the County to counties with similar ratings, the Debt Management Policy requires the Debt Affordability Advisory Committee to include a comparison of the County to other large counties rated in the double-A category using published data from S&P as well as Moody's and to include the Moody's comparisons when timely available.

The latest reports from Moody's and S&P on national medians are dated November 2005 and May 19, 2005, respectively. As the last Moody's report on California counties was in 2004, the Debt Affordability Advisory Committee decided to include California county comparisons using the database compiled by Tamalpais Advisors, Inc., the County's financial advisor; this data compares the County to its cohort of large, urban counties without regard to the ratings of the individual counties, from data provided in each respective county's CAFR as of June 30, 2006.

Table 4 below sets forth the debt affordability measures that recognize direct debt and overall debt, fund balance and per capita performance of the County compared to medians and/or means for counties whose ratings are in the double-A rating category nationwide. There are presently no published medians or means regarding lease debt service ratios, but data from the Tamalpais Advisors, Inc.'s database are presented. In addition, Table 4 sets forth additional debt affordability measures comparing the County to other California urban counties using the Tamalpais Advisors, Inc. database.

Table 4
County's Debt Affordability Measures
(As of June 30, 2007)

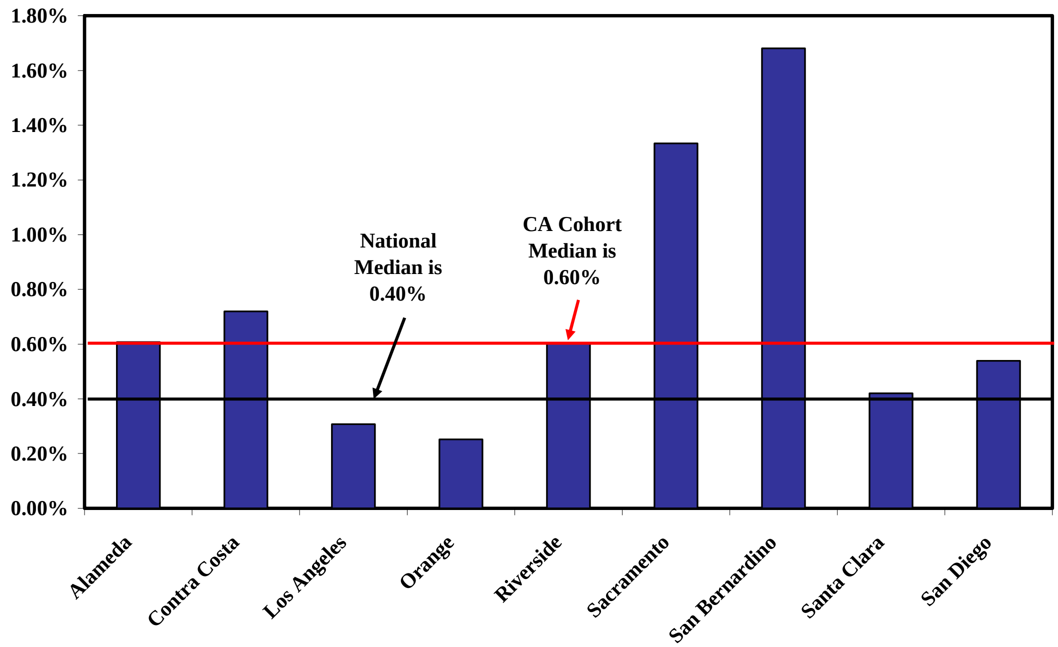
Debt Affordability Measure	Benchmark	Benchmark's Value	County Actual	Percentage Better(+)/Worse(-) Than Benchmark
Direct Debt to Assessed Value	Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population)	0.40%	0.72%	-80%
	Tamalpais Advisors' Large Urban California County Median	0.60%		-20%
Overall Debt to Assessed Valuation	Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population)	2.80%	3.13%	-12%
	Tamalpais Advisors' Large Urban California County Median	2.92%		-7%
Assessed Valuation Per Capita	Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population)	$72,984	$113,224	+55%
	Tamalpais Advisors' Large Urban California County Median	$96,504		+17%
Direct Debt Per Capita	Standard & Poor's Median for Large Aa Rated Counties Nationwide (At Least 150,000 Population)	$271	$815	-200%
	Tamalpais Advisors' Large Urban California County Median	$530		-54%
Percentage of Unreserved Fund Balance	Standard & Poor's Mean for Large Aa Rated Counties Nationwide (At Least 150,000 Population)	21.6%	8.3%	-62%
	Tamalpais Advisors' Large Urban California County Median	18.7%		-56%
Percentage of Total Fund Balance	Standard & Poor's Mean for Large Aa Rated Counties Nationwide (At Least 150,000 Population)	26.3%	11.3%	-57%
	Tamalpais Advisors' Large Urban California County Median	21.1%		-46%
Debt Payments as a Percentage of General Fund Revenues	Tamalpais Advisors' Large Urban California County Median	5.3%	7.5%	-41%

The data in Table 4 show that the County's performance is better than the benchmark on only one of the seven measures: Assessed Valuation Per Capita, which reflects the County's strong underlying wealth base relative to its size. On the remaining six measures, the County's performance is worse in varying degrees than the benchmark. For example, the County's results on Overall Debt to Assessed Valuation are only 12% and 7% worse than the national and California benchmarks whereas the gaps are significantly wider on higher than the Direct Debt Per Capita, Percentage of Unreserved Fund Balance, Percentage of Total Fund Balance and Debt Payments as a Percentage of General Fund Revenues. It should be noted that the gaps are not as wide when the County is compared to its California cohorts than when compared against large counties nationwide. While the comparison to California counties is arguably more relevant, the Committee notes that the rating agencies evaluate the County relative to a broader universe of counties and, thus, the comparisons to counties nationwide are important to monitor.

Below are presented charts from the Tamalpais Advisors, Inc. database that provide a closer look at the County versus its California cohorts on each benchmark.

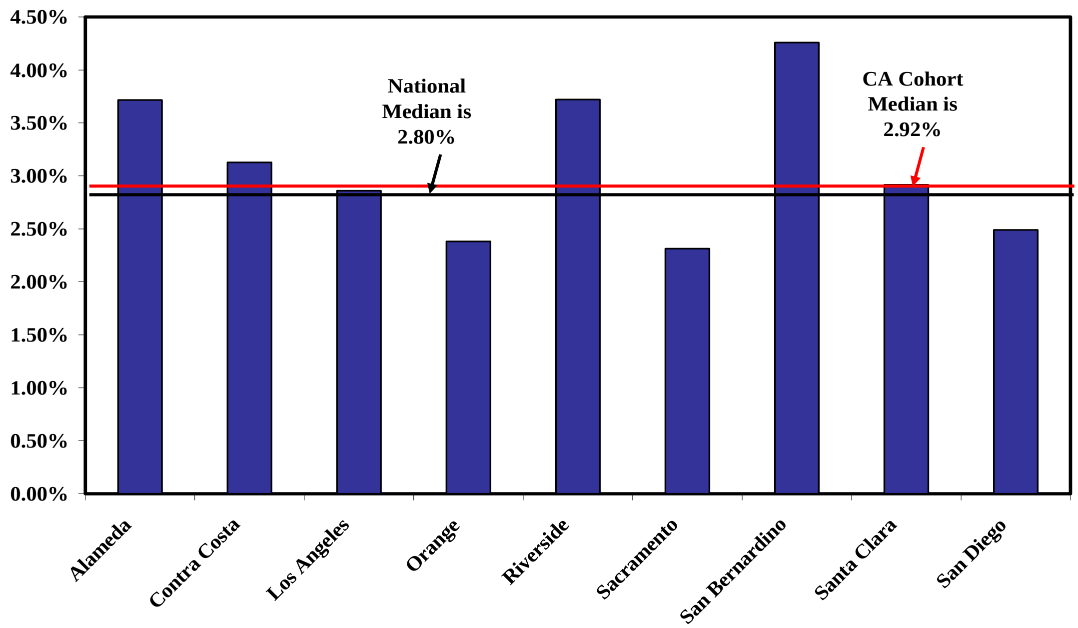
The County's ratio of Direct Net Debt to Assessed Valuation is above both the national and California cohort medians, although it is not significantly above the California cohort median. Orange and Los Angeles Counties performed best on this ratio.

Direct Net Debt as Percentage of Assessed Valuation (as of June 30, 2006)



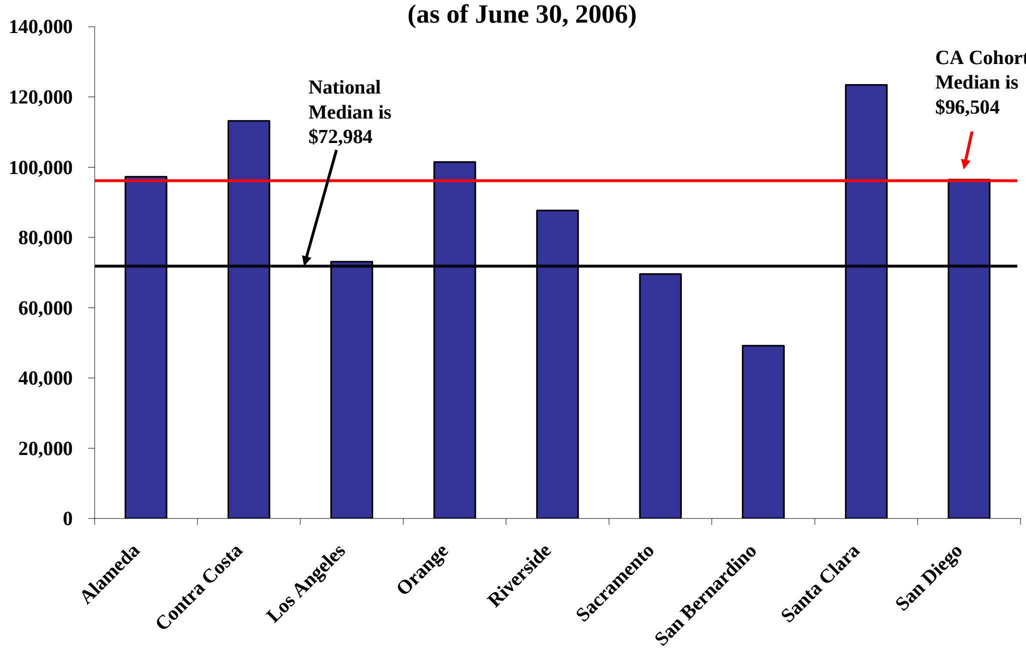
The County's ratio of Overall Net Debt to Assessed Valuation is above both the national and California cohort medians, although it is not significantly above either median. Orange, Sacramento and San Diego perform best on this measure. While Sacramento was above the median on Direct Net Debt to Assessed Valuation, it is below the median on this measure, indicating relatively low issuance of debt by non-County issuers.

Overall Net Debt as Percentage of Assessed Valuation
(as of June 30, 2006)

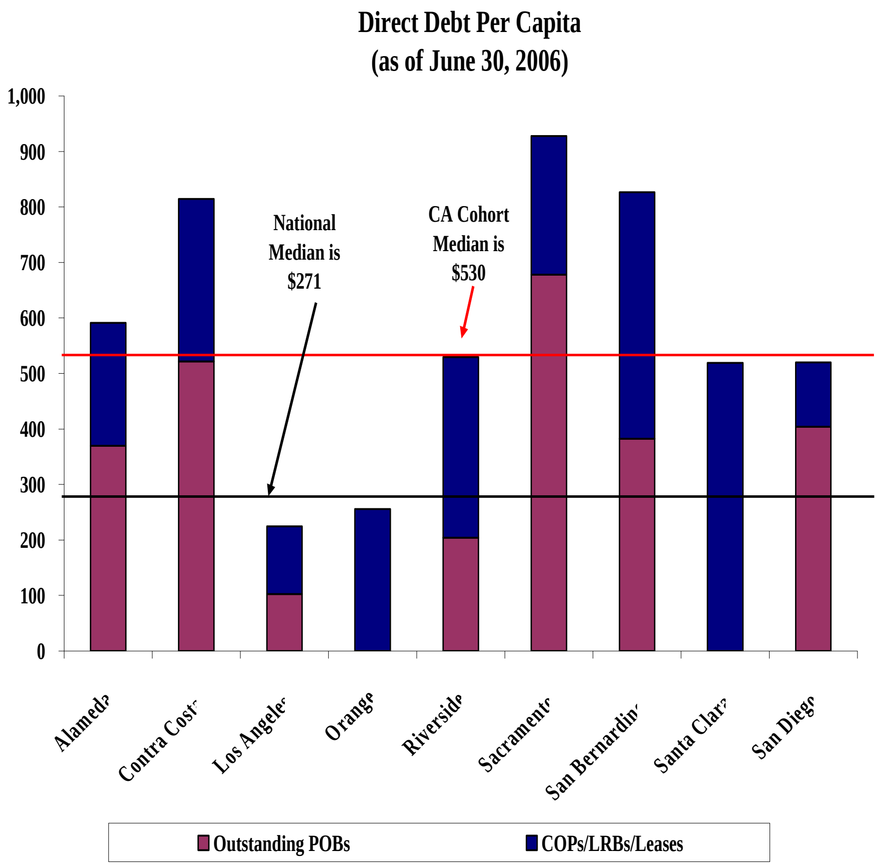


The County's performance on Assessed Valuation Per Capita is better than both the national and California cohort medians. This reflects the County's strong underlying wealth base relative to the other counties. Only Santa Clara County outperformed the County on this measure. Sacramento and San Bernardino Counties were the only counties below both the national and California cohort medians.

Assessed Valuation Per Capita
(as of June 30, 2006)

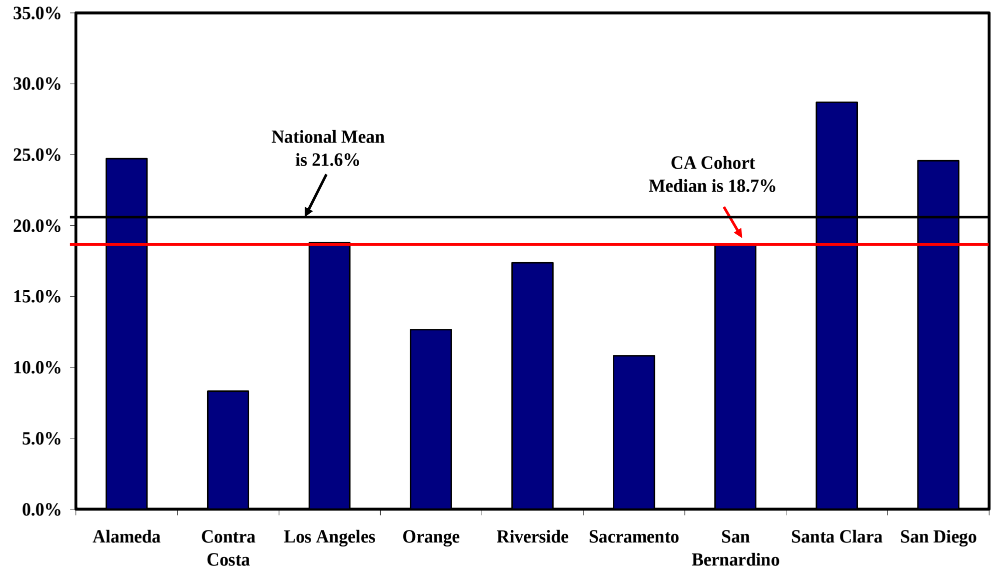


The County's performance on Direct Debt Per Capita is above both the national and California cohort medians. Relative to the other counties, the County's Pension Obligation Bond debt component is second largest whereas the County's Lease Revenue Bond debt is fourth largest. Orange County has no Pension Obligation Bond debt. Santa Clara County did not have any outstanding Pension Obligation Bond debt as of June 30, 2006, but did issue bonds in Fiscal Year 2007-08 that will be reflected in a future Debt Report. Santa Clara County had the highest Lease Revenue Bond debt per capita of all the counties. It should be noted that the data in the chart does not reflect Federal and/or State reimbursement offsets to debt service, so many of the counties above the national median might actually be closer to it.



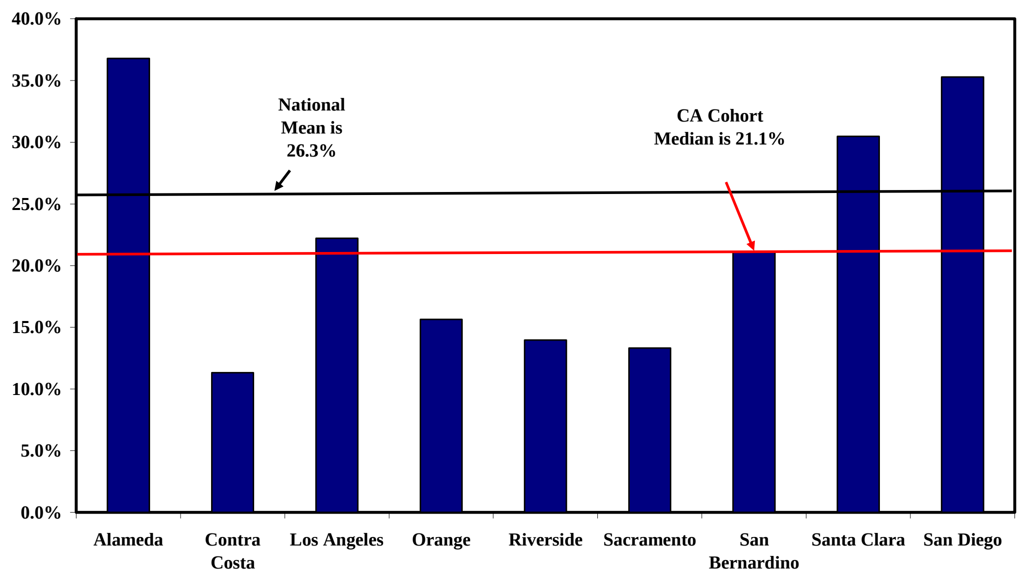
The County's Unreserved Fund Balance as a Percentage of Revenues was the lowest among the counties. Only Alameda, Santa Clara and San Diego Counties performed above the national mean.

Unreserved Fund Balance as % of Revenues
(as of June 30, 2006)

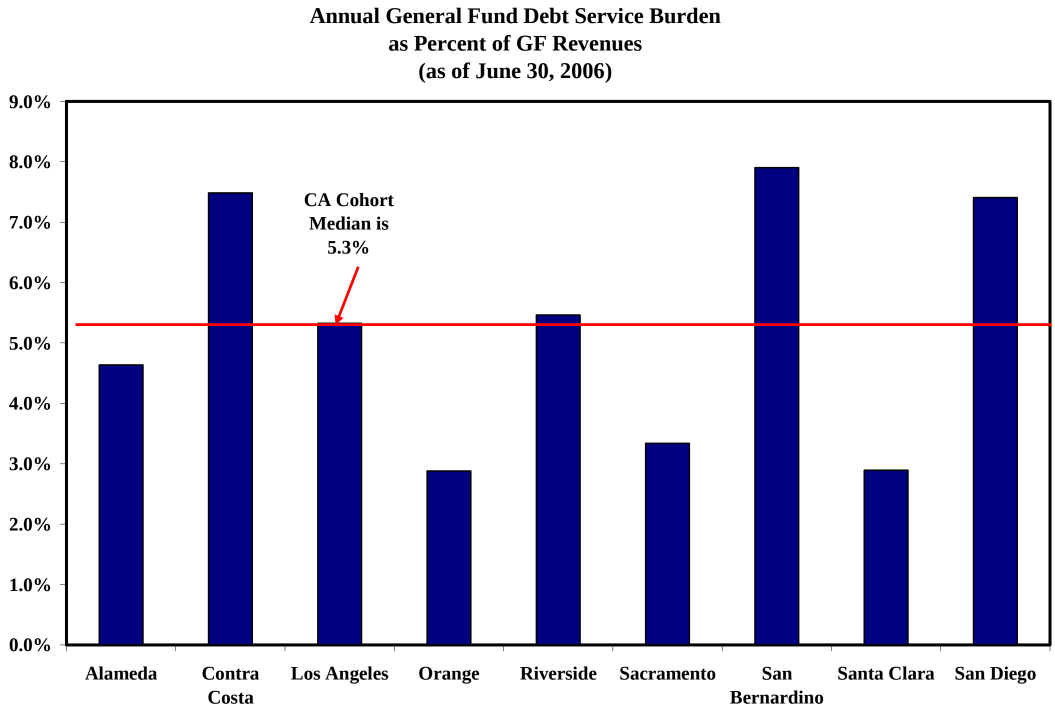


The County's Total Fund Balance as a Percentage of Revenues was the lowest among the counties. Only Alameda, Santa Clara and San Diego Counties performed above the national mean.

Total Fund Balance as % of General Fund Revenues
(as of June 30, 2006)



The County had the second highest annual debt service burden among the counties as measured by Annual General Fund Debt Service as a Percent of General Fund Revenues. The three counties with Pension Obligation Bonds being the largest portion of Net Direct Debt Per Capita (the County, Sacramento and San Diego) also had the highest annual debt service burden. It should be noted that the data in the chart does not reflect Federal and/or State reimbursement offsets to debt service, so many of the counties may be closer to the non-Pension Obligation Bond counties (Orange and Santa Clara) than the chart suggests.



*Listed below are the current implied General Obligation Bond/ Issuer ratings for the California cohert counties:

	Moody's	Standard and Poor's
Alameda	Aa3	AA-
Contra Costa	Aa3	AA
Los Angeles	Aa3	AA-
Orange	Aa2	AA-
Riverside	A1	AA
Sacramento	A1	AA-
San Bernardino	A1	AA-
Santa Clara	Aa2	AA+
San Diego	Aa2	AA

SECTION VI: OUTSIDE MEMBERS OF THE FINANCING TEAM

Pursuant to the Policy, the County includes it general financial advisor, underwriters, investment advisor, bond counsel and disclosure counsel as members of the financing team that, in addition to completing new issuances of debt, provide feedback to the Debt Affordability Advisory Committee on various debt matters. The following firms are currently members of the financing team:

Tamalpais Advisors, Inc. – General Financial Advisor
Orrick, Herrington & Sutcliffe LLP – Bond and Tax Counsel
Lofton & Jennings – Disclosure Counsel
Bond Logistix – Investment Advising
Banc of America Securities LLC - Underwriter
Citigroup - Underwriter
Lehman Brothers - Underwriter
Merrill Lynch - Underwriter
Morgan Stanley - Underwriter
UBS - Underwriter

The above firms have been involved in County financings since the issuance of Requests for Qualifications in 2002. The Committee recommends that the County issue Requests for Qualifications more frequently (every three years) to allow additional firms to compete for the County's business and to enable the County to make any changes to the members of the financing team based upon their performance on County projects.

APPENDIX 1

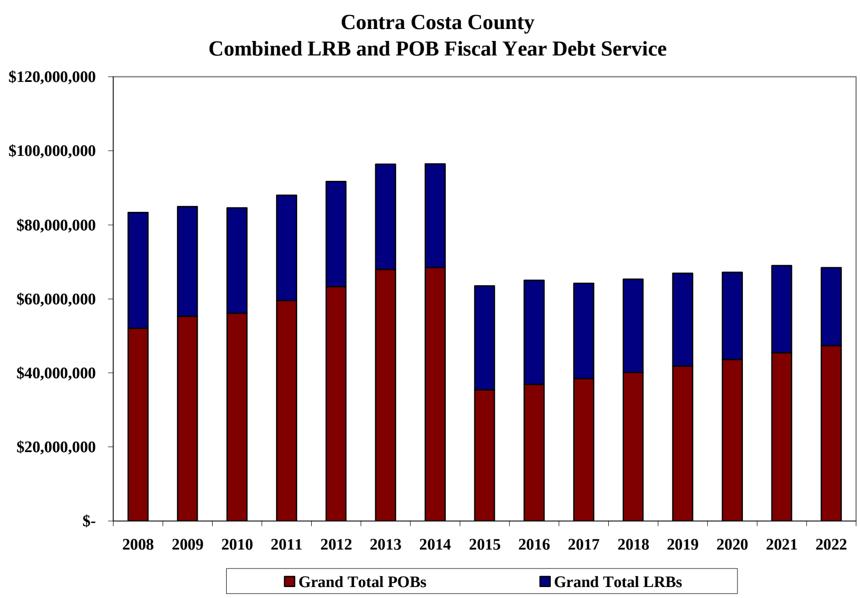
Contra Costa County
Debt Service Payments on Outstanding Pension Obligation and Lease Revenue Bonds

APPENDIX 1

County of Contra Costa
Debt Service Requirements for Outstanding Lease Revenue and Pension Obligation Bonds
(As of June 30, 2007)

Fiscal Year Ending 6/30	Total Lease Debt Service (1)	Total POB Debt Service	Total Debt Service
2008	$ 31,260,561	$ 52,064,234	$ 83,324,795
2009	29,661,218	55,312,572	84,973,790
2010	28,455,170	56,135,041	84,590,211
2011	28,453,956	59,549,809	88,003,765
2012	28,460,190	63,262,284	91,722,474
2013	28,474,809	67,939,535	96,414,344
2014	28,095,633	68,401,566	96,497,199
2015	28,138,953	35,409,894	63,548,847
2016	28,133,306	36,914,525	65,047,831
2017	25,729,039	38,484,360	64,213,399
2018	25,204,797	40,114,901	65,319,698
2019	25,076,446	41,821,636	66,898,082
2020	23,561,628	43,600,400	67,162,028
2021	23,560,946	45,452,243	69,013,189
2022	21,038,788	47,382,397	68,421,185
2023	21,028,602		21,028,602
2024	11,012,192		11,012,192
2025	11,028,642		11,028,642
2026	9,224,950		9,224,950
2027	8,023,825		8,023,825
2028	3,004,350		3,004,350
TOTAL	$ 473,270,273	$ 751,845,397	$1,218,473,394

(1) Excludes capital leases.



APPENDIX 2

Contra Costa County
History of Underlying Long-Term Ratings

APPENDIX 2

Contra Costa County

History of Underlying Long-Term Ratings [1]

All Rating Outlooks are "Stable" Unless Otherwise Noted in Footnotes (4) and (5)

(as of June 30, 2007)

	Implied General Obligation Bond/Issuer Rating		Pension Obligation Bond		Lease Revenue Bond/Certificates of Participation	
FY Ending June 30	**Moody's**	**S&P**	**Moody's**	**S&P**	**Moody's**	**S&P**
1987	Not available		No issue to rate		Baa1	A
1988	Not available		No issue to rate		A1	A+
1989	Aa2	AA	No issue to rate		A1	A+
1990	Aa2	AA	No issue to rate		A1	A+
1991	Aa2	AA	No issue to rate		A1	A+
1992	Aa2	AA	No issue to rate		A1	A+
1993	Aa2	AA	No issue to rate		A1	A+
1994	Aa2	AA	A1	AA-	A1	A+
1995	Aa2	AA	A1	AA-	A1	A+
1996[2]	Aa2	AA	Aa3	AA-	A1	A+
1997	Aa2	AA	Aa3	AA-	A1	A+
1998	Aa2	AA	Aa3	AA-	A1	A+
1999	Aa2	AA	Aa3	AA-	A1	A+
2000	Aa2	AA	Aa3	AA-	A1	A+
2001[3]	Aa2	AA	Aa3	AA-	A1	AA-
2002	Aa2	AA	Aa3	AA-	A1	AA-
2003	Aa2	AA	Aa3	AA-	A1	AA-
2004	Aa2	AA	Aa3	AA-	A1	AA-
2005	Aa2	AA	Aa3	AA-	A1	AA-
2006[4]	Aa3	AA	A1	AA-	A2	AA-
2007[5]	Aa3	AA	A1	AA-	A2	AA-

[1] Municipal bond insurance policies were purchased to allow the ratings to be increased to Aaa (Moody's) and AAA (S&P) on all or portions of all Lease Revenue Bond/COPs issues since Fiscal Year 1987-88 and on all or portions of all Pension Obligation Bonds since FY 2000-01. While the County has never requested underlying ratings from Fitch, Fitch has automatically assigned its AAA rating to all insured County issues since Fiscal Year 2002-03.

[2] Beginning in 1996, Moody's began to rate pension obligation bonds only one notch (rather than the previous two notches) lower than the issuer's general obligation bond rating. In addition, Moody's replaced their two-notch per tier system (e.g. Aa1, Aa2) with a three notch per tier system (e.g. Aa1, Aa2, Aa3).

[3] Beginning in 2001, Standard and Poor's began to rate lease obligations only one notch (rather than the previous two notches) lower than the issuer's general obligation bond rating.

[4] S&P assigned an outlook of "Negative" to the County in November 2005. In December 2005, Moody's downgraded the County one notch and changed the outlook to "Negative".

[5] Moody's assigned an outlook of "Stable" to the County in November 2006. In February 2007, S&P changed the outlook to "Stable".

APPENDIX 3

County of Contra Costa
Debt Management Policy

Contra Costa County, California
Debt Management Policy

County Administration
651 Pine Street, 10th Floor
Martinez, California 94553
925-335-1023
FAX 925-646-1353
ldris@cao.cccounty.us

Resolution No. 2006/773

DEBT MANAGEMENT POLICY
TABLE OF CONTENTS

Contra Costa County, California
Debt Management Policy

I. PURPOSE*:* The County recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy should recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that credit quality is protected. Advantages of a debt policy are as follows:

- enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making,
- provides rationality in the decision-making process,
- identifies objectives for staff to implement,
- demonstrates a commitment to long-term financial planning objectives, and
- is regarded positively by the rating agencies in reviewing credit quality.

The scope of this initial policy (the "Debt Policy") is intended to include only General Fund financings (i.e. County Tax and Revenue Anticipation Notes, Certificates of Participation, and General Obligation bonds), with Redevelopment debt and Assessment District debt incorporated into future updates of the Debt Policy.

II. DEBT AFFORDABILITY ADVISORY COMMITTEE

A. Purpose. By adoption of this Debt Policy, the Debt Affordability Advisory Committee is established. Its purpose is to annually review and evaluate existing and proposed new County debt and other findings and/or issues the committee considers appropriate.

It is the task of this committee to assess the County's ability to generate and repay debt. The committee will issue an annual report to the County Administrator defining debt capacity of the County. This review will be an important element of the budget process and will include recommendations made by the committee regarding how much new debt can be authorized by the County without overburdening itself with debt service payments.

B. Members. The committee shall be composed of the Auditor-Controller, Treasurer-Tax Collector, Director/Community Development Department, and Senior Deputy County Administrator/Finance Manager.

C. Debt Affordability Measures. The committee shall examine specific statistical measures to determine debt capacity and relative debt position and compare these ratios to other counties, rating agency standards and Contra Costa County's historical ratios to determine debt affordability. From Moody's Investors Service, the committee will evaluate the County against the following three debt ratios from the most recent available national medians for counties in the "Aa" rating tier contained in Moody's "Municipal Financial Ratio Analysis – U.S. Counties (Population > 1 million)" and for the County's cohort group in Moody's "California County Medians":

1. Direct net debt as a percentage of Assessed Valuation;
2. Overall net debt as a percentage of Assessed Valuation; and
3. Assessed Valuation per-capita.

From Standard and Poor's, the committee will evaluate the County against the following three debt ratios from the most recent available national medians for counties in the "AA" rating tier :

1. Percentage of total fund equity;
2. Percentage of unreserved fund equity; and
3. Direct debt per-capita.

III. COMPREHENSIVE CAPITAL PLANNING

A. Planning. The County Administrator's Office shall prepare a multi-year capital program for consideration and adoption by the Board of Supervisors as part of the County's budget process. Annually, the capital budget shall identify revenue sources and expenditures for the coming current year and the next succeeding three fiscal years. The plan shall be updated annually.

B. Funding of the Capital Improvement Program. Whenever possible, the County will first attempt to fund capital projects with grants or state/federal funding, as part of its broader capital improvement plan. When such funds are insufficient, the County will use dedicated revenues to fund projects. If these are not available, the County will use excess surplus from the reserve and debt financing, general revenues. The County shall be guided by three principles in selecting a funding source for capital improvements: equity, effectiveness and efficiency.

1. Equity: Whenever appropriate, the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government that benefits the entire community, such as an Office of Emergency Services, the project will be paid for with general purpose revenues or financed with debt. If, however, the project benefits specific users, such as a building permit facility, the revenues will be derived through user fees or charges, and assessments.

2. Effectiveness: In selecting a source or sources for financing projects, the County will select one or more that effectively funds the total cost of the project. For example, funding a capital project, or the debt service on a project, with a user fee that does not provide sufficient funds to pay for the project is not an effective means of funding the project.

3. Efficiency: If grants or current revenues are not available to fund a project, the County will generally select a financing technique that provides for the lowest total cost consistent with acceptable risk factors and principals of equity and effectiveness. These methods currently consist of County issued debt, special funding programs funded by state or federal agencies, or special pool financing. Examples include funding pools like the Association of Bay Area Governments Participation Certificates.

C. Maintenance, Replacement and Renewal/FLIP. The County intends to set aside sufficient current revenues to finance ongoing maintenance needs and to provide periodic replacement and renewal consistent with its philosophy of keeping its capital facilities and infrastructure systems in good repair and to maximize a capital asset's useful life.

D. Debt Authorization. No County debt issued for the purpose of funding capital projects may be authorized by the Board of Supervisors unless an appropriation has been included in the capital budget (Some forms of debt such as Private Activity Bonds for housing, Mello-Roos for infrastructure, and redevelopment bonds for infrastructure/facilities may not be appropriate for inclusion in the County capital improvement program. These forms of debt are currently covered under separate policy).

IV. PLANNING AND STRUCTURE OF COUNTY INDEBTEDNESS

A. Overview. The County shall plan long- and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Senior Deputy County Administrator/Finance Manager shall oversee and coordinate the timing, issuance process and marketing of the County's borrowing and capital funding activities required in support of the capital improvement plan. The County shall finance its capital needs on a regular basis dictated by its capital spending pattern. Over the long-term this policy should result in a consistently low average interest rate. When market conditions in any one year result in higher than average interest rates, the County shall seek refinancing opportunities in subsequent years to bring such interest rates closer to the average. The Debt Affordability Advisory Committee shall use the Government Financial Officers Association checklist set forth in the Appendix hereto in planning and structuring any debt issuances.

B. Financing Team. The County employs outside financial specialists to assist it in developing a debt issuance strategy, preparing bond documents and marketing bonds to investors. The key team members in the County's financing transactions include its financial advisor and outside bond and disclosure counsel, the underwriter and County representatives (the County Auditor-Controller, Treasurer-Tax Collector, and the Senior Deputy County Administrator/Finance Manager, among others). Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, verification, escrow, auditing, or printing services, are retained as required. The financing team shall meet at least semi-annually to review the overall financing strategy of the County and make recommendations to the County Administrator.

C. Term of Debt Repayment. Borrowings by the County shall mature over a term that does not exceed the economic life of the improvements that they finance and usually no longer than 20 years, unless special structuring elements require a specific maximum term to maturity, as is the case with pension obligation bonds. The County shall finance improvements with a probable useful life less than five years using pay-go funding for such needs. Bonds sold for the purchase of equipment with a probable useful life exceeding five years are repaid over a term that does not exceed such useful life.

D. Legal Borrowing Limitations/Bonds and other indebtedness. California Government Code Section 29909 limits General Obligation Bond indebtedness to five percent of the total assessed valuation of all taxable real and personal property within the County, excluding Public Financing Authority lease revenue bonds, Public Facility Corporation certificates of participation, Private Activity Bond, Mello-Roos special tax, and Assessment District Debt for which no legal limitations are currently in effect.

E. Debt Features.

1. Original issue discount or premium. The County's bonds may be sold at a discount or premium, in order to achieve effective marketing, achieve interest cost savings or meet other financing objectives. The maximum permitted discount is stated in the Notice of Sale accompanying the County's preliminary official statement on the Bond Purchase Agreement, as applicable.

2. Debt service structure/Level Debt Service. The County shall primarily finance its long-lived municipal improvements over a 20-year term or less, on a level debt service basis. This policy minimizes long-run impact on a funding department's budget. The County will seek to continue this practice, unless general fund revenues are projected to be insufficient to provide adequately for this debt service structure.

3. Call provisions. The County shall seek to minimize the protection from optional redemption given to bondholders, consistent with its desire to obtain the lowest possible interest rates on its bonds. The County's tax-exempt bonds are generally subject to optional redemption. The County seeks early calls at low or no premiums because such features will allow it to refinance debt more easily for debt service savings when interest rates drop. The County and its financial advisor shall evaluate optional redemption provisions for each issue to assure that the County does not pay unacceptably higher interest rates to obtain such advantageous calls. The County shall not sell derivative call options.

4. Interest rates. The County shall first consider the use of fixed-rate debt to finance it capital needs, except for short-term needs (such as short-lived assets) that will be repaid or refinanced in the near term; and may consider variable rate debt under favorable conditions.

F. Other Obligations Classified as Debt/Other Post Employment Benefits (OPEB)/Vested Vacation Benefits. OPEBs and vacation benefits are earned by County employees based on time in service. The County records these vacation benefits as earned in accordance with generally accepted accounting principles as established by the Governmental Accounting Board (GASB). The liability for the benefit is recorded on the Fund level financial statements. The expense is recorded during the conversion to the Government Wide financial statements in accordance with GASB standards. For Enterprise funds the expense and liability are accrued in the respective funds. In this initial policy, the amount of OPEB and vacation benefits will not be in measures used to evaluate the County's debt affordability. However, the County's net OPEB obligation, if any, will be posted to the County's balance sheet beginning FY 2007/08, at which point such an obligation may be viewed as debt by the rating agencies.

V. METHOD OF SALE. The County will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and County-related conditions, and explain the rationale for its decision.

A. Competitive Sales. Debt obligations are generally issued through a competitive sale. The County and its financial advisor will set the terms of the sale to encourage as many bidders as possible. By maximizing bidding, the County seeks to obtain the lowest possible interest rates on its bonds. Some of the conditions that generally favor a competitive sale include:

1. the market is familiar with the County;
2. the County is a stable and regular borrower in the public market;
3. there is an active secondary market with a broad investor base for the County's bonds;
4. the issue has a non-enhanced credit rating of A or above or can obtain credit enhancement prior to the competitive sale;
5. the debt structure is backed by the County's full faith and credit or a strong, known or historically performing revenue stream;
6. the issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sale effort;
7. the issue does not include complex or innovative features or require explanation as to the bonds' security;
8. the issue can be sold and closed on a schedule that does not need to be accelerated or shortened for market or policy reasons; and
9. interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price changes.

B. Negotiated Sales. When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the County that would not be achieved through a competitive sale, the County may elect to sell its debt obligations through a private placement or negotiated sale, upon approval by the County Board of Supervisors. Such determination shall be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. The following practices are recommended to be observed in the event of a negotiated sale:

1. ensure fairness by using a competitive underwriter selection process through a request for proposals where multiple proposals are considered;
2. remain actively involved in each step of the negotiation and sale processes to uphold the public trust;
3. ensure that either an employee of the County, or an outside professional other than the issue underwriter, who is familiar with and abreast of the condition of the municipal market, is available to assist in structuring the issue, pricing, and monitoring sales activities;
4. require that the financial advisor used for a particular bond issue not act as underwriter of the same bond issue;
5. require that financial professionals disclose the name or names of any person or firm, including attorneys, lobbyists and public relations professionals compensated in connection with a specific bond issue;
6. request all financial professionals submitting joint proposals or intending to enter into joint accounts or any fee-splitting arrangements in connection with a bond issue to fully disclose to the County any plan or arrangements to share tasks, responsibilities and fees earned, and disclose the financial professionals with whom the sharing is proposed, the method used to calculate the fees to be earned, and any changes thereto; and
7. review the "Agreement among Underwriters" and insure that it is filed with the County and that it governs all transactions during the underwriting period.

VI. REFINANCING OF OUTSTANDING DEBT. The County may undertake refinancings of outstanding debt under the following circumstances:

A. Debt Service Savings. The County may refinance outstanding long-term debt when such refinancing allows the County to realize significant debt service savings (2% minimum by maturity on its own and a minimum 4% savings overall on its own or if combined with more than one refinancing) without lengthening the term of refinanced debt and without increasing debt service in any subsequent fiscal year. The County may also consider debt refinancing when a primary objective would be the elimination of restrictive covenants that limit County operations.

B. Defeasance. The County may refinance outstanding debt, either by advance refunding to the first call or by defeasance to maturity, when the public policy benefits of replacing such debt outweigh the costs associated with new issuance as well as any increase in annual debt service.

VII.CREDIT RATINGS

A. Rating Agency Relationships. The Senior Deputy County Administrator/Finance Manager is responsible for maintaining relationships with the rating agencies that assign ratings to the County's various debt obligations. This effort includes providing periodic updates on the County's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

B. Quality of Ratings. The County shall request ratings prior to the sale of securities from each of two major rating agencies for municipal bond public issues. Currently these agencies are Moody's Investors Service and Standard & Poor's Corporation. The County shall provide a written and/or oral presentation to the rating agencies to help each credit analyst make an informed evaluation. The County shall make every reasonable effort to maintain its Aa implied general obligation bond credit ratings.

VIII. MANAGEMENT PRACTICES*.* The County has instituted sound management practices and will continue to follow practices that will reflect positively on it in the rating process. Among these are the County development of and adherence to long-term financial and capital improvement plans, management of expense growth in line with revenues and maintenance of an adequate level of operating reserves.

A. Formal Fiscal Policies. The County shall continue to establish, refine, and follow formal fiscal policies such as: Investment Policy, General Fund Reserve Policy, Budget Policy, and this Debt Management Policy.

B. Rebate Reporting and Covenant Compliance The Senior Deputy County Administrator/Finance Manager is responsible for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code and/or contracting for such service. This effort includes tracking investment earnings on debt proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants are monitored to ensure that all covenants are complied with.

C. Reporting Practices. The County will comply with the standards of the Government Finance Officers Association for financial reporting and budget presentation and the disclosure requirements of the Securities and Exchange
Commission.

APPENDIX
GOVERNMENT FINANCE OFFICERS ASSOCIATION

Checklist of Debt Policy Considerations

1. How long is the capital planning period?

2. Have all non-debt sources of funds been considered?

3. How are borrowing plans reviewed internally?

4. What level of debt is manageable in order to maintain or improve the government's credit quality?

5. How much "pay-as-you-go" financing should be included in the capital plan?

6. How much short-term borrowing will be undertaken, including both operating and capital borrowings?

7. How much debt will be issued in the form of variable-rate securities?

8. How does the redemption schedule for each proposed issue affect the overall debt service requirements of the government?

9. What types of affordability guidelines will be established to help monitor and preserve credit quality?

10. What provisions have been made to periodically review the capital plan and borrowing practices?

11. What is the overlapping debt burden on the taxpayer?

12. How will the formal debt policies be integrated into the capital planning and funding process?