Agenda

# DEBT AFFORDABILITY ADVISORY COMMITTEE

**Wednesday, March 25, 2015**
**3:15 P.M.**
**651 Pine Street, 11th Floor, Martinez**

Robert Campbell, Auditor-Controller
Lisa Driscoll, County Finance Director
John Kopchik, Department of Conservation & Development Director
Russell Watts, Treasurer-Tax Collector

**Agenda Items:** Items may be taken out of order based on the business of the day and preference of the Committee

1. Public Comment

2. CONSIDER revising the Debt Policy to include direction that private placements/direct loans are reported to CDIAC within 21 days of occurrence. Alternatively CONSIDER revising Debt Policy to direct compliance with CDIAC reporting.

3. Review of draft FY 2013-2014 Debt Report.

4. Other Business

5. Other Business/Next Meeting – Winter 2015

☺ *The Debt Affordability Advisory Committee will provide reasonable accommodations for persons with disabilities planning to attend Committee meetings. Contact the staff person listed below at least 72 hours before the meeting.*

*Any disclosable public records related to an open session item on a regular meeting agenda and distributed by the County to a majority of members of the Committee less than 96 hours prior to that meeting are available for public inspection at 651 Pine Street, 10th floor, during normal business hours.*

*Public comment may be submitted via electronic mail on agenda items at least one full work day prior to the published meeting time.*

**For Additional Information Contact:**

Lisa Driscoll, County Finance Director
Phone (925) 335-1023, Fax (925) 646-1353
Lisa.driscoll@cao.cccounty.us

**County of Contra Costa**
**Post-Issuance Tax Compliance Procedures**
**For Tax-Exempt and Build America Bonds**

The purpose of these Post-Issuance Tax Compliance Procedures is to establish policies and procedures in connection with tax-exempt bonds and "Build America bonds" ("Bonds") issued by the County of Contra Costa and the County of Contra Costa Financing Authority (together, the "County") so as to ensure that the County complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt or Build America bond status of the Bonds.

**General**

Ultimate responsibility for all matters relating to County financings and refundings, other than Tax and Revenue Anticipation Notes ("TRANs"), rests with the County Administrator (the "Administrator"). The County Treasurer and County Auditor-Controller are responsible for tax compliance with respect to TRANs.

**Post-Issuance Compliance Requirements**

Timely Reporting of Final Sale

The Administrator and other appropriate County personnel shall file timely any report required by state and federal regulatory agencies notifying those agencies of final sale of bonds, or receipt bank loan/private placement proceeds, as required by law. As of this writing, this section applies to the following:

1. California Debt and Investment Advisory Commission (CDIAC)

    - *Report of Final Sale:* This Reports details information about the issuer and the bond issuance. The report requires attachment of the Official Statement related to the transaction or other bond documents in the case of a bank loan/private placement. The report is required to be filed within 21 days of closing, pursuant to Government Code § 8855(j).

        - *Special Requirement for Refunding Bonds sold via Negotiated Sale or Private Placement*: In addition to the Report of Final Sale above, if refunding bonds are sold through a negotiated sale or private placement, CDIAC requires submission of a written statement explaining the reasons for not selling those bonds at a public sale within 14 days of closing, pursuant to Government Code § 53583(c)(2)(B).

2. Internal Revenue Service (IRS)

    - *IRS Form 8038-G "Information Return for Tax-Exempt Governmental Obligations"*: This filing details information about the issuer and tax-exempt governmental obligations over $100,000. The report is required to be filed no later than the 15$^{th}$ day of the second calendar month after the close of the calendar quarter in which the bond was issued, pursuant to Internal Revenue Code § 149(e).

External Advisors / Documentation

The Administrator and other appropriate County personnel shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in a County resolution(s), Tax Certificate(s) and / or other documents finalized at or before issuance of the Bonds.

Those requirements and procedures shall including future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

The Administrator and other appropriate County personnel also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed assets and future contracts with respect to the use of output or throughput of Bond-financed assets.

Whenever necessary or appropriate, the County shall engage expert advisors (each a “Rebate Service Provider”) to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds.

<u>Role of the County as Bond Issuer</u>

Unless otherwise provided by County resolutions, unexpended Bond proceeds shall be held by the County, and the investment of Bond proceeds shall be managed by the [Administrator]. The Administrator shall maintain records and shall prepare regular, periodic statements to the County regarding the investments and transactions involving Bond proceeds.

If a County resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

<u>Arbitrage Rebate and Yield</u>

Unless a Tax Certificate documents that bond counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

1. the County shall engage the services of a Rebate Service Provider, and the County or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;

2. upon request, the Administrator and other appropriate County personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

# County of Contra Costa
# Debt Report
# Fiscal Year 2013-14

Debt Affordability Advisory Committee

March 25, 2015

**County Administrator**

County Administration Building
651 Pine Street, 10th Floor
Martinez, California 94553-4068
V-925-335-1080
F-925-335-1098

**David Twa**
County Administrator

**Contra Costa County**



Date: March 25, 2015

To: David Twa
County Administrator

FR: Debt Affordability Advisory Committee

RE: **Debt Report for Fiscal Year 2013-14**

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 requires the Debt Affordability Advisory Committee (the "Committee") to report on the General Fund financings of the County, which 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 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 V(B)). The Committee notes that the County's debt performance is somewhat weak when compared to counties nationwide and to its California cohort counties. Of the nine debt ratio factors reviewed by the Committee that have published national medians and/or means, the County performed better on two factors, approximately equivalent on three factors and worse on four factors. When compared to its California cohort counties on eleven debt ratio factors, the County performed better or the same on five factors but worse on six factors. These outcomes relative to national and California cohort medians and means are similar to the outcomes we saw in the Fiscal Year 2012-13 Debt Report.

Even with the County's relatively weak performance on debt factors, the County's credit rating is at the highest possible level of AAA by Standard & Poor's. Further, Moody's Investors Service has maintained the County's high investment grade rating of Aa2. These achievements are due to the County's adherence to its financial management policies, to the underlying long-term strength of the County's wealth and assessed valuation demographics and to the County's recent track record of maintaining structurally balanced budgets during difficult economic cycles like we witnessed over the past several years. In addition, the County's conservative fixed-rate debt portfolio shielded it from the serious and expensive disruptions in the variable rate market that occurred during the recent financial crisis.

The Committee recommends that the County continue to work toward improving its comparative credit performance in order to further reduce the gap between the County and its higher performing cohort counties. Important elements under the County's control that would reduce the gap include:

1. Continuing to issue debt prudently and structuring debt issues conservatively to achieve low borrowing costs and maximum Federal and State reimbursements, as required under the Policy. Of note is the County's successful issuance in November 2010 of $13.13 million on taxable Build America Bonds for which the County receives an approximate 35% federal subsidy of interest cost and the issuance of $20.7 million of taxable Recovery Zone Bonds for which the County receives an approximate 45% federal subsidy on interest cost.[1]

2. 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 implemented with the assistance of a registered financial advisor.

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

4. Assessing alternative funding sources in order to reduce reliance on Lease Revenue Bonds, such as when available reserves were appropriated to fund the County's portion of the purchase of East Bay Regional Communication System's emergency equipment.

We note that comparative information on pension Unfunded Actuarial Accrued Liabilities (Pension UAAL) and other post-employment benefits' Unfunded Actuarial Accrued Liabilities (OPEB UAAL) is also included in the Debt Report. These liabilities have become significant credit factors in rating agencies' financial review of local and state governments.

**Recommendations**. The Committee emphasizes the heightened importance of the County's adherence to its Policy in light of its performance relative to counties nationwide and to its California cohort counties, and the Committee recognizes it has work to do to maximize the benefits of adhering to the Policy. In addition to elevating the focus of items 1 through 4 in the Highlights section above, the Committee makes the following recommendations:

1. The Policy should be updated to require the Committee's review of the debt performance of the Special Districts and Housing Authority to assure that prudent debt management practices extend to these agencies as well.

We hope the information in this Debt Report can be used to support the development of sound capital plans and adherence to the County's finance and debt policies. Such capital plans provide

[1] The subsidy percentages are "approximate" due to federal sequestration requirements that reduced the subsidies in 2014 and are scheduled to reduce them in 2015 as well. Sequestration requirements, if any, in the future depend upon federal budget decisions for each of its fiscal years. See Section I.C. in the Debt Report.

critical guidance for the protection of the County's infrastructure and assets. Together with sound capital planning, the County's debt and finance policies will 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:

Bob Campbell, County Auditor-Controller
Rusty Watts, County Treasurer-Tax Collector
Lisa Driscoll, County Finance Director
John Kopchik, Director/Department of Conservation and Development

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## LISTING OF CHARTS, TABLES AND APPENDIX ITEMS

In accordance with the requirement of the County's Debt Management Policy, the Debt Affordability Advisory Committee must submit a Debt Report to the County Administrator annually. The following list identifies the information included and its location in the Debt Report:

## 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 liabilities. This Debt Report presents an overall picture of the County’s indebtedness in the categories of General Obligation Bonds, Lease Revenue Bonds and Pension Obligation Bonds as well as a summary of the County’s short-term debt in the form of Tax and Revenue Anticipation Notes.

General Obligation Bonds represent debt that is paid from voter approved *ad valorem* property 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 and Certificates of Participation 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 an anticipated lower interest cost over time 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 that 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 as well as to the performance of cohort counties. 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 “Combined Direct Debt” issued by all local public agencies within the County’s boundaries. It is important to monitor the levels and growth of both Direct Debt and Overall 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 the date of this Debt Report, the County’s implied General Obligation Bond ratings were AAA by Standard & Poor’s and

[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.

Aa2 by Moody's Investors Service reflecting the highest quality (S&P), and high quality (Moody's) investment grade status. The ratings on Pension Obligation Bonds were AA+ (S&P) and A1 (Moody's) and the ratings on Lease Revenue Bonds were AA+ (S&P) and A1 (Moody's) . The ratings assigned to all County debt issues affect interest payments and the debt service costs to the General Fund. In addition, the fiscal health of the State may affect the County's interest costs. A history of the County's long-term credit ratings is provided in Appendix 2 to this Debt Report.

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## SECTION I: GENERAL DEBT PROFILE

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

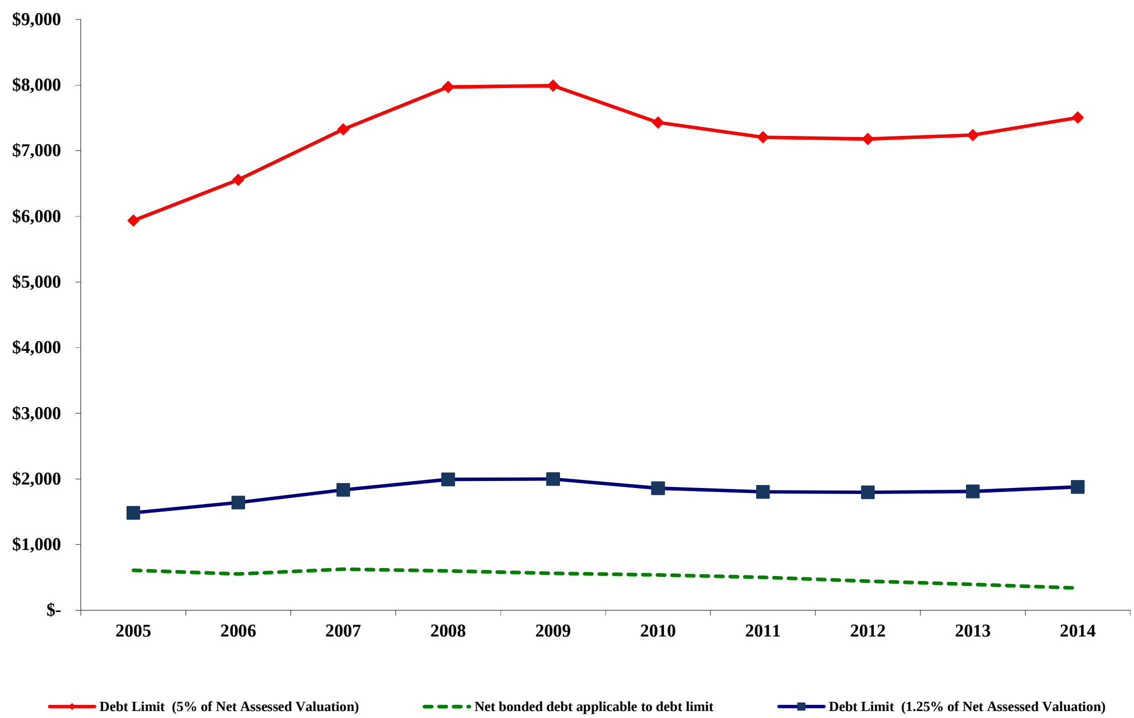
For Fiscal Year 2013-14, the County's total assessed valuation base was $155.2 billion and the growth rate of total assessed valuation in the County was 3.66%, the second fiscal year increase since Fiscal Year 2008-09. The local portion of total assessed valuation can grow up to the maximum annual rate 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 rate in assessed valuation averaged 10.1% over the last 25 years but averaged -1.02% over the past 5 years. Assessed valuation fell by a cumulative 9.3% from its peak in Fiscal Year 2008-09 through the trough in Fiscal Year 2011-12 as a result of the impacts of foreclosures and recession on the County's economy. Assessed valuation appears to have stabilized. Subsequent to the reporting period of this Debt Report, total assessed valuation grew by 6.06% in Fiscal Year 2014-15, surpassing the historical peak in Fiscal Year 2008-09. See Chart 1 below.

**Chart 1**
**Historical Assessed Valuation**
**For Fiscal Year Ended June 30**
**($ millions)**

In accordance with California Government Code Section 29909, the County's general obligation bonded debt limitation equals 5.0%[1] of the value of taxable property (i.e., assessed valuation) in the County and was $7.5 billion[1, 2] in Fiscal Year 2013-14. It should be noted that this limit applies to all County-controlled agencies, including the County General and Enterprise funds, the Successor 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 are true "general obligation bonds" that require voter approval; lease revenue bonded debt and assessment district debt are not required to be included.

The County's bonded debt limitation peaked in Fiscal Year 2008-09 and has been below the peak since then, although improved recent economic performance has caused the declining trend in assessed valuation, and hence, bonding capacity to turn around, as seen in Chart 2 below. Table 1 presents the County's debt limitation versus current outstanding bonded debt. The difference is the "Legal Debt Margin." Chart 2 shows that the Legal Debt Margin (i.e., the distance between the blue and green lines) has been very large but declined during the recent period when assessed valuation was declining. 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 similar to the County generally have not been successful when competing with school districts, transportation agencies and the State for voter approval of general obligation bonds.

**Chart 2**
**Contra Costa County Debt Limit vs. Outstanding Net Bonded Debt**
**(as of June 30; in $ millions)**

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[1] Article XIIIA of the California Constitution and Senate Bill 1656, Statutes of 1978, provided for changing assessed valuation from 25% of full cash value to full cash value. Hence, the 5% limitation on general obligation bonds indebtedness imposed by Section 29909 of the Government Code became 1.25% of assessed valuation.

[2] Pursuant to the statutory debt limitation of 1.25% of assessed valuation, the bonded debt limitation was $1.9 billion. Assessed valuation (excluding unitary valuation) was $164.6 billion for Fiscal Year 2014-15, subsequent to the reporting period for this Debt Report.

**Table 1**
**Contra Costa County – All Agencies**
**Bonded Debt Limitation and Legal Debt Margin, Fiscal Year 2013-14**
**(in $000s)**

| | |
|---|---|
| Total Assessed Valuation | $150,129,829 |
| Bonded Debt Limitation (5% times Assessed Valuation) | 7,506,491 |
| Less: Outstanding Bonded Debt | (350,945) |
| Plus: Amounts Available in Bond Interest and Redemption Fund to Pay Principal | 13,958 |
| ***Equals: Legal Debt Margin*** | ***$7,169,504*** |

## B. Bonds Outstanding

As of June 30, 2014, the County had a total of $532.722 million of outstanding Pension Obligation Bonds and Lease Revenue Bonds, 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 permits variable rate issues such as variable rate demand obligations only under special circumstances and does not presently permit derivatives such as swaps. Even prior to the implementation of its 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, counterparty 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, the 2010 Series A-2 Lease Revenue Bonds and the 2010 Series A-3 Lease Revenue Bonds are taxable securities whereas all other County debt issues are tax-exempt securities. The TICs for the taxable issuances are generally higher than those for tax-exempt securities.

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**Table 2**
**County of Contra Costa (County Only)**
**Outstanding Lease Revenue and Pension Obligation Bonds and True Interest Cost**
**(as of June 30, 2014)**

| Bond Issues | Date of Issue | Final Maturity Date | Principal Amount Issued ($000s) | Outstanding Principal ($000s) | True Interest Cost (%)[1] |
|---|---|---|---|---|---|
| Lease Revenue Bond and Obligation Issues (LRBs and LROs): | | | | | |
| 1999 Series A (Refunding and Various Capital Projects) | 03/04/99 | 06/01/28 | $74,685 | $12,745 | NA |
| 2001 Series A (Various Capital Projects) | 01/25/01 | 06/01/15 | 18,030 | 705 | 4.62% |
| 2002 Series A (Various Capital Projects) | 06/27/02 | 06/01/16 | 12,650 | 1,125 | 4.73% |
| 2002 Series B (Refunding and Various Capital Projects) | 09/05/02 | 06/01/19 | 25,440 | 6,520 | 3.97% |
| 2003 Series A (Various Capital Projects) | 08/14/03 | 06/01/17 | 18,500 | 2,310 | 4.46% |
| 2007 Series A (Refunding and Various Capital Projects) | 03/14/07 | 06/01/28 | 122,065 | 121,185 | 4.27% |
| 2007 Series B (Medical Center Refunding) | 08/07/07 | 06/01/18 | 110,265 | 44,640 | 4.27% |
| 2009 Series A (Various Capital Projects) | 06/03/09 | 06/01/24 | 25,062 | 18,453 | 4.55% |
| 2010 Series A-1 (Capital Project I – Tax Exempt) | 11/16/10 | 06/01/20 | 6,790 | 5,915 | 4.15%[2] |
| 2010 Series A-2 (Capital Project I – Taxable BABs) | 11/16/10 | 06/01/30 | 13,130 | 13,130 | 4.15%[2] |
| 2010 Series A-3 (Capital Project I – Taxable RZBs) | 11/16/10 | 06/01/40 | 20,700 | 20,700 | 4.15%[2] |
| 2010 Series B (Refunding) | 11/16/10 | 06/01/25 | 17,435 | 14,475 | 3.84% |
| 2012 Lease Revenue Obligations | 11/11/12 | 06/01/27 | 13,210 | 12,319 | 2.68% |
| | ***Total LRBs and LROs*** | | ***$477,962*** | ***$274,222*** | |
| Pension Obligation Bond Issues (POBs): | | | | | |
| Series 2003 A (Taxable) | 05/01/03 | 06/01/22 | 322,710 | 258,500 | 5.36% |
| | ***Total POBs*** | | ***$322,710*** | ***$258,500*** | |
| | ***Grand Total*** | | ***$800,672*** | ***$532,722*** | |

## C. Innovative Transaction

In November 2010, the County's Public Financing Authority issued $6.79 million of its 2010 Series A-1 tax-exempt Lease Revenue Bonds, $13.13 million of its 2010 Series A-2 taxable Build America Bonds ("BABs"), $20.7 million of its 2010 Series A-3 taxable Recovery Zone Bonds ("RZBs") (collectively, the "2010 Series A Bonds"), and $20.7 million of its 2010 Series B Refunding Lease Revenue Bonds. The 2010 Series A Bonds represented an innovative use of specialized bond structures permitted under the American Recovery and Reinvestment Act (ARRA).

The portions of the 2010 Lease Revenue Bonds issued as RZBs and BABs are eligible to receive Federal subsidies of 45% and 35%, respectively, toward bond interest expense. The County obtained $10.7 million of RZB authorization directly from the federal government in 2009 and another $10 million from the State in September 2010.

On March 4, 2013 the Internal Revenue Service announced that certain automatic reductions to federal budget items would take place, effective March 1, 2013. Based upon the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the automatic reductions are due to so-called "sequestration." Federal subsidies on BABs and RZBs were reduced by 7.2%, or a reduction of $33,938.56 from the scheduled subsidies for the County's June 1, 2014 bond interest cost. Unless Congress otherwise addresses the federal deficit matter, sequestration will occur each federal fiscal year through fiscal year 2024. The sequestration rate is determined at the beginning of the federal fiscal year (October 1).

## D. 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 or Lease Revenue Obligations periodically, but no more than once a year for new money purposes.

In Fiscal Year 2013-14, the County did not issue any bonds.

The County may issue refunding bonds from time to time if significant savings can be achieved. Based upon the latest available County projections, the County expects to issue approximately $20 million in new money bonds in Fiscal Year 2014-15.

## E. 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 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 $9.61 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, 2014)**

| 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 |
| 2010 Series B (current refunding) | 17.400 | 15 years | 1.10 | 73,330 |
| Total | ***$244.150*** | | ***$9.61*** | ***$565,235*** |

In addition to the traditional refundings described above, the County has issued Pension Obligation Bonds in 1994, 2001 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 (i.e. the assumed investment rate) charged by CCCERA, thereby producing savings for the County. 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 at the time of issuance of Pension Obligation Bonds and the debt service on said Pension Obligation Bonds.

For example, in the 2003 Pension Obligation Bond issue, total savings were estimated to be $113.8 million ($73 million on a present value basis) over 19 years for average annual savings of about $6.0 million. The estimated savings reflected the lower interest cost on the bonds (5.36%) versus the 8.35% actuarial interest rate charged by CCCERA at the time, but also assumed CCCERA would earn 8.35% throughout the term of the bonds. The assumed actuarial interest rate has since been lowered to 7.25% meaning that long term savings from Pension Obligation Bonds are also reduced.

CCCERA's net return on market value of assets for the last five calendar years is presented below in Table 4.[1]

**Table 4**
**Net Return on Market Value of CCCERA's Assets**

| Year Ending December 31 | Net Return on . Market Value of Assets |
|---|---|
| 2010 | 13.3% |
| 2011 | 2.1% |
| 2012 | 13.5% |
| 2013 | 15.7% |
| 2014 | 7.7% |

Unless CCCERA's future performance produces investment returns above the assumed actuarial rate in some years to offset negative or low investment returns in others, the actual savings from Pension Obligation Bonds may be zero or negative.

To the extent that Federal and/or State programs offset debt service costs for any UAAL, the County must share the savings from the reduced debt service attributable to funding the UAAL with Pension Obligation Bonds with such Federal and/or State program.

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[1] The net return figures are set forth in the Cumulative Performance Statistics section of the Quarterly Review & Performance Measurement Report for the periods ending December 31 posted on CCCERA's website www.cccera.org.

## SECTION II: LEASE REVENUE BOND AND LEASE REVENUE OBLIGATION DEBT

The County has issued Lease Revenue Bonds and Lease Revenue Obligations ("LRBs and LROs" respectively) (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 LRBs and LROs is paid either from the County General Fund or Enterprise Funds, depending upon which department is financing the improvements.

The County has historically issued its LRBs and LROs 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 issue and by fiscal year for all outstanding LRBs and LROs as of June 30, 2014. Annual principal amortization ranges from about $21 million to $23 million until Fiscal Year 2023-24 when it declines to about $12.0 million and then falls farther to about $2 million by Fiscal Year 2028-29. 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, 2014)**

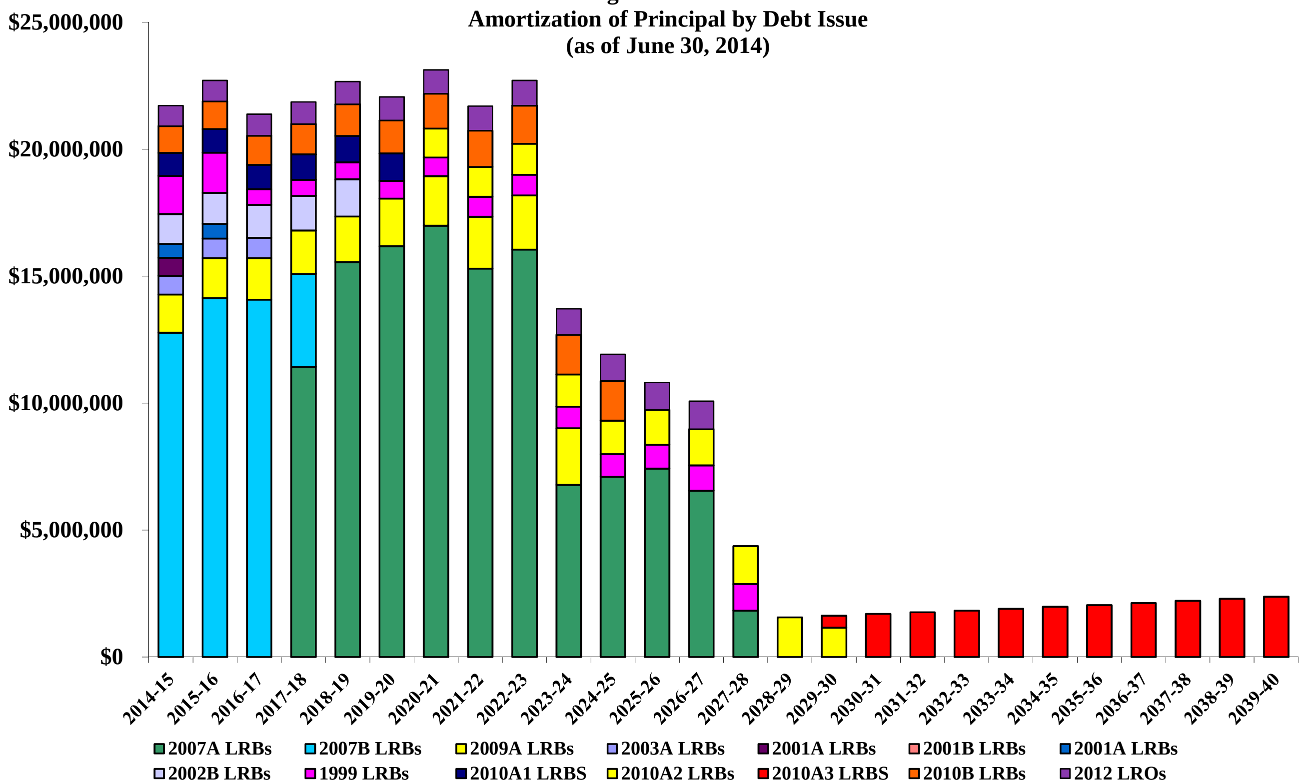
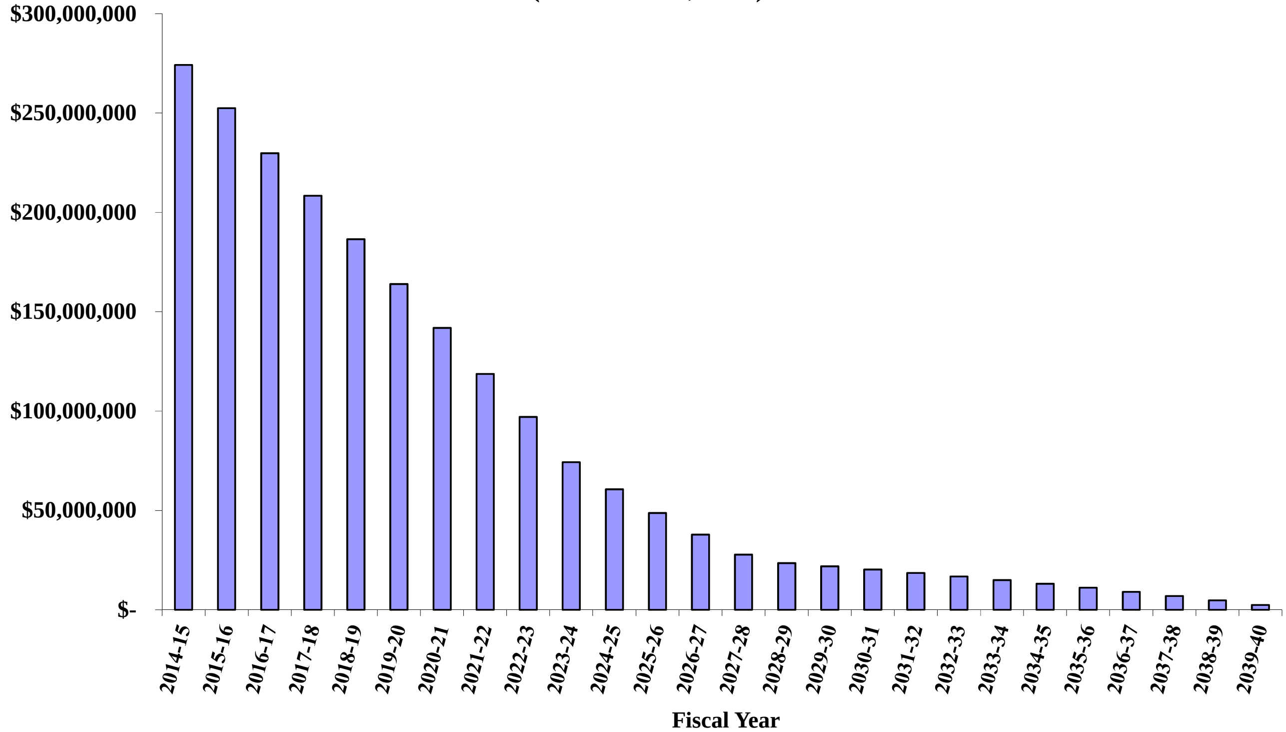


**Chart 4**
**Amortization of Outstanding Lease Revenue Bond Principal Amounts**
**(as of June 30, 2014)**




## SECTION III: PENSION OBLIGATION BOND DEBT

The County has issued Pension Obligation Bonds ("POBs") to refinance its then-existing UAAL with CCCERA and to restructure prior POBs. Debt service on POBs 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 POBs, see Section I.E. Refundings.

Shown in Chart 5 is the maturity structure of principal by issue and by fiscal year of all outstanding POBs. Chart 6 presents the amortization of aggregate outstanding principal by fiscal year. The POBs issued in 1994 (the "1994 POBs") have been repaid. The 2001 POBs issue relates to the refinancing of the County's $333.6 million UAAL as of January 1, 1994. The 2001 POBs issue restructured a portion of the 1994 POBs issue through a tender process and modestly extended the original final term by two years. The 2001 POBs have been repaid. When the 2003 POBs 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 that UAAL.

**Chart 5**
**Maturity Structure of 2003 Pension Obligation Bond Principal**
**(as of June 30, 2014)**

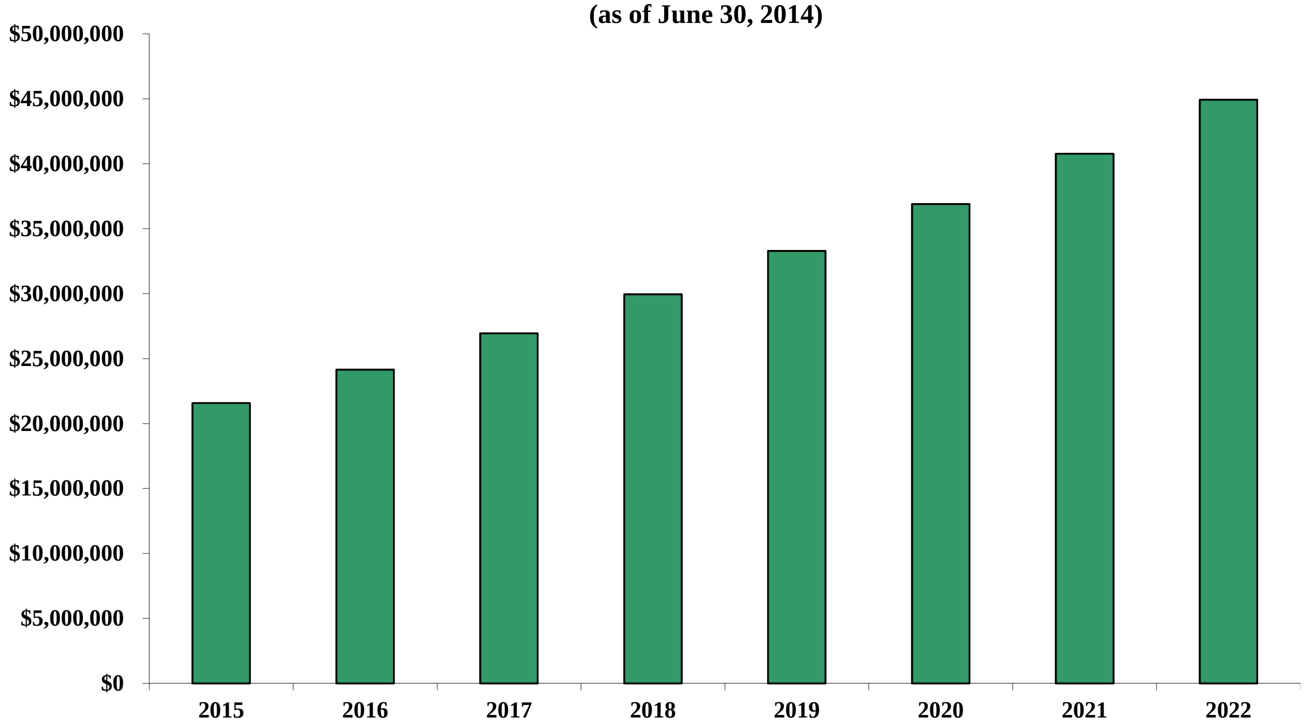
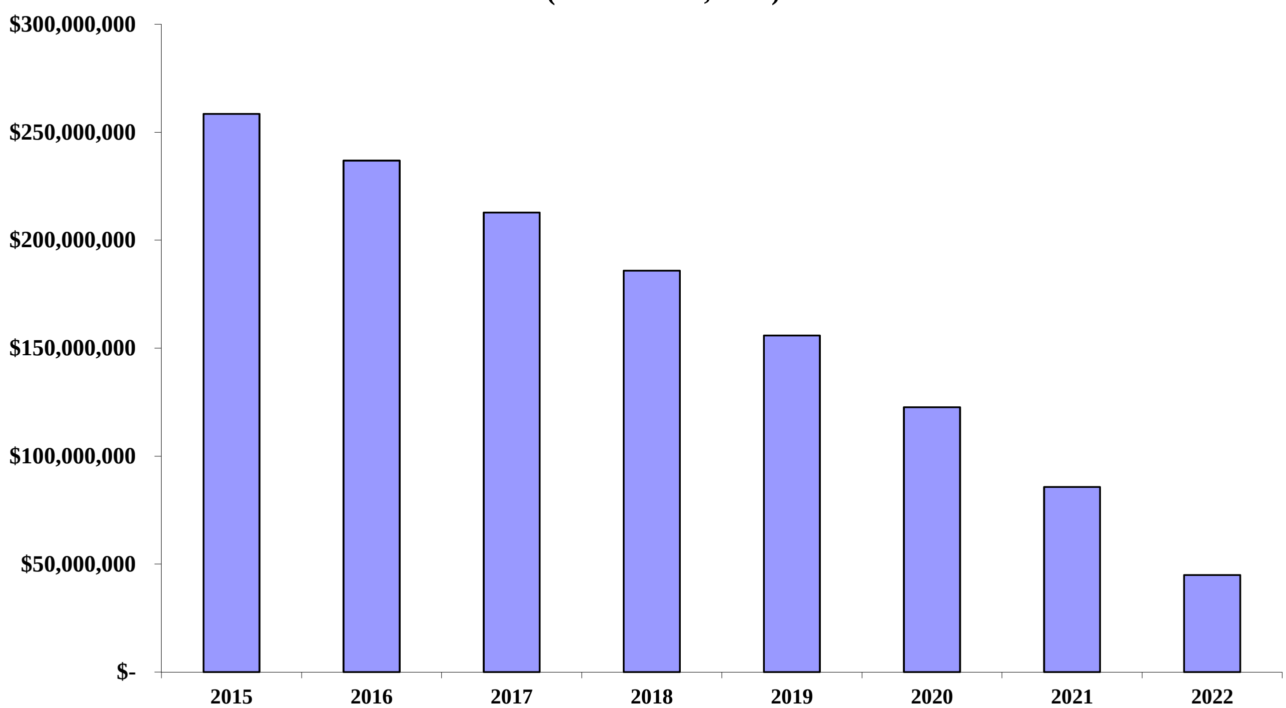



**Chart 6**
**Amortization of Outstanding Pension Obligation Bonds**
**(as of June 30, 2014)**



## 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.

Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's") currently assign the County an implied General Obligation Bond rating (or "Issuer Rating") of AAA and Aa2 , respectively, as shown in Table 4 below. General Obligation Bond ratings are typically one to two notches higher than those of LRBs, 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 County's implied General Obligation Bond ratings are "best quality" (S&P) and "high quality investment grade" (Moody's) ratings. S&P and Moody's currently rate the County's POBs AA+ and A1 , respectively. Finally, S&P and Moody's currently rate the County's LRBs AA+ and A1 respectively. All of the S&P POB and LRB ratings are in the "high quality investment grade" category whereas Moody's POB and LRB ratings are in the "upper medium investment grade" category.

The S&P ratings on POBs and LRBs tend to be one notch lower than the implied general obligation bond rating, while the Moody's ratings tend to be two notches lower. Beginning in 2001, S&P 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 is high; hence, the credit strength of leases is greater as a result. However, S&P has recently been evaluating the abandonment of specific rating notching relationships, such that General Obligation Bonds paid from voter-approved *ad valorem* property taxes would be de-linked from general fund credit. This could lead to wider notching between general fund credits and other forms of debt, depending upon the financial performance of the issuer as occurred when Moody's downgraded the County's POBs on February 20, 2013 to the same rating level as LRBs.

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.

Almost ten years ago, 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. The ratings have had a "Stable" outlook ever since.

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, established a minimum Unreserved General Fund balance of 5%. Reflecting changes in fund balance measurements promulgated by GASB in Fiscal Year 2009-10, the applicable measure now is the combined "Assigned, Committed and Unassigned" Fund Balances. 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 combined Assigned, Committed, and Unassigned General Fund Balance at or above the 5% policy threshold while maintaining structurally balanced budgets so that resources are available to deal with any unforeseen fiscal challenges.

**Table 5**
**Credit Quality Tranches**
**(County's Implied G.O. Bond Ratings Highlighted in Yellow)**
**(S&P's Lease and Pension Obligation Bond Ratings Highlighted in Blue)**
**(Moody's Lease and Pension Obligation Bond Ratings Highlighted in Green)**

| | **Moody's (Since April 9, 2010)** | **S&P (Since December 18, 2013)** |
|---|---|---|
| Best Quality | Aaa | AAA |
| High Quality Investment Grade | Aa1 | AA+ |
| | Aa2 | AA |
| | Aa3 | AA- |
| Upper Medium Investment Grade | A1 | A+ |
| | A2 | A |
| | A3 | A- |
| Medium Investment Grade | Baa1 | BBB+ |
| | Baa2 | BBB |
| | Baa3 | BBB- |
| Below Investment Grade | Ba1 and lower | BB+ and lower |

A history of the County's implied General Obligation Bond, Pension Obligation Bond and Lease Revenue Bond ratings since 1995 is presented in Appendix 2.

[REST OF PAGE INTENTIONALLY LEFT BLANK]

Listed below are the implied General Obligation Bond/Issuer ratings for the County's cohort counties, namely, the other large, urban counties in California. These ratings are as of the date listed in the tables. The County's performance on various debt and reserve ratio compared to its cohort counties is presented in Section V.B.

| | Moody's | S&P | Changes from the FY 2012-13 Debt Report | "As of" Date |
|---|---|---|---|---|
| Alameda | Aa1 | AA+ | None | 01/27/2015 |
| Contra Costa | Aa2 | AAA | S&P Upgrade to AAA | 09/18/2014 |
| Los Angeles | Aa2 | AA+ | None | 01/06/2015 |
| Orange | Aa1 | AA | None | 12/19/2014 |
| Riverside | Aa3 | AA | None | 10/20/2009 |
| Sacramento | A2 | A | None | 09/30/2013 |
| San Bernardino | Aa2 | AA | None | 12/20/2013 |
| Santa Clara | Aa2 | AAA | None | 04/01/2014 |
| San Diego | Aaa | AAA | Upgraded by Moody's to Aaa | 08/12/2014 |

### B. Long-Term Ratings on the Successor Agency to the Contra Costa County Redevelopment Agency[1]

The County's Redevelopment Successor Agency has four outstanding bond issues secured by property tax increment. These issues are not secured by the county's General Fund or other funds. S&P changed the outlook on three of these bond issues from Negative to Stable in 2013. S&P also raised its rating on the 1999 Bonds to BB- from B in 2014, the ratings for the other outstanding bond issues were affirmed. The ratings by S&P on the four bond issues are as follows:

| Bond Issue | Amount Outstanding As of June 30, 2014 ($000) | Ratings in 2013 | Ratings in 2014 |
|---|---|---|---|
| 1999 Bonds | $8,615.0 | B/Stable | BB-/Stable |
| 2003A Bonds | 6,065.0 | BBB+/Stable | BBB+/Stable |
| 2007A Senior Bonds | 63,315.0 | BB+/Stable | BB+/Stable |
| 2007B Subordinate Bonds | 14,450.0 | B/Stable | B/Stable |
| Total | $92,445.0 | | |

### C. 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 in Fiscal Years 2005-06 and 2006-07 to finance periodic cash flow deficits. The County always received the highest possible short-term ratings from Moody's (MIG 1) and S&P (SP-1+) on its prior TRANs, reflecting strong cash flows and ample debt service coverage from both the General Fund and intrafund borrowing sources. The rating agencies also cited the demonstrated accuracy of the cash flows prepared by the Auditor-Controller as a positive factor in the ratings.

[1] These debt issues were issued through the Contra Costa County Public Finance Authority.

## 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. It is noted that the County presently does not have any outstanding General Obligation Bonds.

- **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 Net Direct Debt to General Fund Revenues.** In response to S&P's updated methodology, this ratio is incorporated into the report as it measures the total debt burden on the government's revenue position, rather than the annual cost of debt, which can be manipulated by amortization structures. The formula for this computation is Net Direct debt divided by total governmental funds revenue, expressed as a percentage.

- **Percentages of Total and Assigned, Committed and Unassigned 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 and sudden drops in assessed valuation due to real estate market cycles. Ratios are computed for both "Available Fund Balance as a Percentage of Revenues" and for "General Fund Balance as a Percentage of Revenues." "Available Fund Balance" is calculated as the sum of committed, assigned and unassigned fund balances in the General Fund and is divided by General Fund revenues to compute the ratio. The "General Fund Balance as a Percentage of Revenues" ratio is calculated using the total General Fund Balance divided by revenues.

- **Percentages of Total Government Available Cash.** These ratios measure the availability of cash and cash equivalents to service both annual debt service payments and governmental funds expenditures. These ratios are an important measure of the availability of liquidity of the County to meet debt service requirements and expenditures. Ratios are computed for both "Total Government Available Cash as a Percentage of Debt Service" and for "Total Government Available Cash as a Percentage of Expenditures." "Total Government Available Cash" is calculated as the sum of cash, and cash equivalents plus investments (when grouped with cash in the audit).

- **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. It should be noted that a portion of the County's debt is paid by departments outside the General Fund, but such debt is treated as General Fund only for purposes of this ratio.

- **Ratio of Annual Debt Service to General Fund Expenditures.** The formula for this computation is annual debt service expenditures divided by General Fund expenditures as reported in the most recent Comprehensive Annual Financial Report. This ratio measures debt service as a percentage of expenditures and encompasses the annual fixed-cost burden that debt places on the County. Again, as noted, a portion of the County's debt is paid by departments outside the General Fund, but such debt is treated as General Fund only for purposes of this ratio.

### 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. At the same time, the funding of counties across the United States is not uniform. It would be ideal to compare the County to counties in California; however, published debt ratios and benchmarks tend to be on a national basis except for occasional reports and comparative data prepared on California counties. In order to use published ratios and to compare the County to counties with similar economic bases, the Debt Management Policy requires the Debt Affordability Advisory Committee to include a comparison of the County to other large, urban counties, preferably rated in the double-A category, using published data from S&P and Moody's. Currently, Moody's and S&P publish data on counties nationwide but have not recently published reports on California counties only.

In rating the County, Moody's utilizes the principal methodology "US Local Government General Obligation Debt" that was published in January 2014, replacing the Rating Methodology for General Obligation Bonds Issued by US Local Governments published in April 2013. The April 2013 methodology replaced Moody's General Obligation Bonds Issued by U.S. Local Government methodology originally published in October 2009, that the County has historically been rated under. The new methodology proposed increases in the weight assigned to debt and pensions, reduced the weight attached to economic factors and introduced a scorecard that assigned weights and values to the factors Moody's considers most important in local GO bond analysis. While Moody's updated methodology reflects many of the same core principles that have been historically used to assigning ratings to this sector, there was a change to one of the debt affordability measures that has been incorporated into this report. Specifically, previous reports incorporated "Unassigned General Fund Balance as Percentage of Revenues" as a debt affordability measure that Moody's monitored and the County compared its ratio to national medians for this measure. This measure has been replaced in Moody's methodology with "Cash Balance (or Available General Fund Balance which is defined as net Cash available in the Operating Funds) as a Percentage of Revenues". For most counties, the General Fund is the principal operating fund and available fund balance includes committed, assigned and unassigned fund balances. This report incorporates this new debt affordability measure and calculates the County's performance compared to medians for similarly rated counties and Moody's national medians for 2013.

Similarly to Moody's, S&P published an updated criteria for "U.S. Local Governments General Obligation Ratings: Methodology and Assumptions" in September 2013 that replaced the previously utilized criteria published in October 2006. With the new methodology, S&P introduced a scorecard aimed to make ratings more comparable across geographies and enhance transparency, and like Moody's, built on previous criteria and encompasses the same core principles. However, there were some changes to the debt affordability measures that this report previously analyzed. Specifically, S&P no longer measures "Direct Debt Per Capita" and instead reviews "Direct Debt as a Percentage of Revenues." Additionally, instead of analyzing "Fund Balance as a Percentage of Revenues," S&P now looks at "Available Cash as a Percentage of Debt Service" and as a "Percentage of Expenditures." Finally, S&P now also reviews "Total Debt Service as a Percentage of General Fund Expenditures." Debt service as a percentage of expenditures measures the annual fixed-cost burden that debt places on the government. Debt to revenues measures the total debt burden on the government's revenue position rather than the annual cost of the debt, which can be manipulated by amortization structures. MDA has incorporated the medians for these measures for the counties rated by S&P into the analysis of the County's debt affordability measures, and has incorporated these ratios into MDA's database calculations.

As noted, the Debt Affordability Advisory Committee decided to include California county comparisons using the database compiled by MDA, 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, 2014.[1] Additionally, as the methodologies for Moody's and S&P have been updated with new ratios, MDA has also calculated the respective metrics for the County and the cohort counties to facilitate evaluation.

Table 6 below sets forth the debt affordability measures for Direct Debt and Overall Debt, General Fund Balance and Per Capita performance of the County compared to medians and/or means for counties whose ratings are in the AAA rating category by S&P and in the AA rating category by Moody's. There are presently no published medians or means regarding lease debt service ratios, but data from MDA's database are presented. In addition, Table 6 sets forth additional debt affordability measures comparing the County to other California urban counties using the MDA database[2].

[1] The MDA database does not include City and County of San Francisco because it is both a city and a county.

[2] The Moody's nationwide medians are from the publication "2013 U.S. Local Government Medians Demonstrate Stability of Sector." The S&P nationwide means and medians are from the publication "General Obligation Medians for Counties Under the Revised Local GO Criteria: 2Q 2014 Update."

**Table 6**
**County's Debt Affordability Measures**
**(As of June 30, 2014)**

| Debt Affordability Measure | Benchmark | Benchmark's Value | County Actual |
|---|---|---|---|
| Direct Debt to Assessed Value | Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population) | 0.38% | 0.38% |
| | MDA's Large Urban California County Median | 0.42% | |
| Overall Debt to Assessed Valuation | Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population) | 2.89% | 3.63% |
| | MDA's Large Urban California County Median | 3.50% | |
| Assessed Valuation (or Market Value) Per Capita | Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population) | $117,260 | $142,288 |
| | Standard & Poor's AAA GO Median for Counties Under Revised Local GO Criteria: 2Q 2014 Update | $110,504 | |
| | MDA's Large Urban California County Median | $127,094 | |
| Direct Debt Per Capita | MDA's Large Urban California County Median | $456 | $547 |
| Direct Debt as Percentage of Governmental Funds Revenue | Standard & Poor's AAA GO Median for Counties Under Revised Local GO Criteria: 2Q 2014 Update | 70% | 32% |
| | MDA's Large Urban California County Median | 32% | |
| Available General Fund Balance as Percentage of Revenues (Note: this measures Operating Funds Balance and includes Assigned, Unassigned and Committed Balances in this calculation) | Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population | 17% | 17% |
| | MDA's Large Urban California County Median | 17% | |

**Table 6 (Continued)**
**County's Debt Affordability Measures**
**(As of June 30, 2014)**

| Debt Affordability Measure | Benchmark | Benchmark's Value | County Actual |
|---|---|---|---|
| General Fund Balance as Percentage of Revenues | Moody's Median for Large Aa Rated Counties Nationwide (At Least 1,000,000 Population) | 19% | 18% |
| | MDA's Large Urban California County Median | 19% | |
| Total Government Available Cash as Percentage of Debt Service | Standard & Poor's AAA GO Median for Counties Under Revised Local GO Criteria: 2Q 2014 Update | 677% | 470% |
| | MDA's Large Urban California County Median | 689% | |
| Total Government Available Cash as Percentage of Expenditures | Standard & Poor's AAA GO Median for Counties Under Revised Local GO Criteria: 2Q 2014 Update | 47% | 41% |
| | MDA's Large Urban California County Median | 43% | |
| Debt Payments as a Percentage of General Fund Revenues | MDA's Large Urban California County Median | 5.4% | 7.9% |
| Total Debt Service as Percentage of General Fund Expenditures | Standard & Poor's AAA GO Median for Counties Under Revised Local GO Criteria: 2Q 2014 Update | 7% | 9% |
| | MDA's Large Urban California County Median | 5% | |

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The data in Table 6 shows that the County's performance is better than the national benchmark on two of the eleven measures: Assessed Valuation Per Capita, which reflects the County's strong underlying wealth base relative to its size; and Direct Debt as a Percentage of Governmental Funds Revenue, which reflects the low debt burden on the County's revenue position. The Available General Fund Balance as Percentage of Revenues, which reflects the County's increases in revenue and healthy balances is in line with the national and cohort medians. The County's performance on Overall Debt to Assessed Value and Direct Debt to Assessed Value is mixed; Direct Debt to AV is on par with Moody's national median and is slightly better than the MDA median. With regards to Overall Debt to AV, the County is worse than the Moody's national median and the MDA median. As noted previously, S&P no longer measures Direct Debt Per Capita and as such, there is no national median reported for this ratio. However, the County performed worse than the cohort median for this measure. The County performed worse than the cohort median and S&P's national medians for Total Government Available Cash as a Percentage of Debt Service, Available Cash as Percentage of Expenditures, and Debt Service as a Percentage of Expenditures. It should be noted, though, that the gaps are not as wide when the County is compared to its California cohorts as 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 MDA database that provides a closer look at the County versus its California cohorts on each benchmark.

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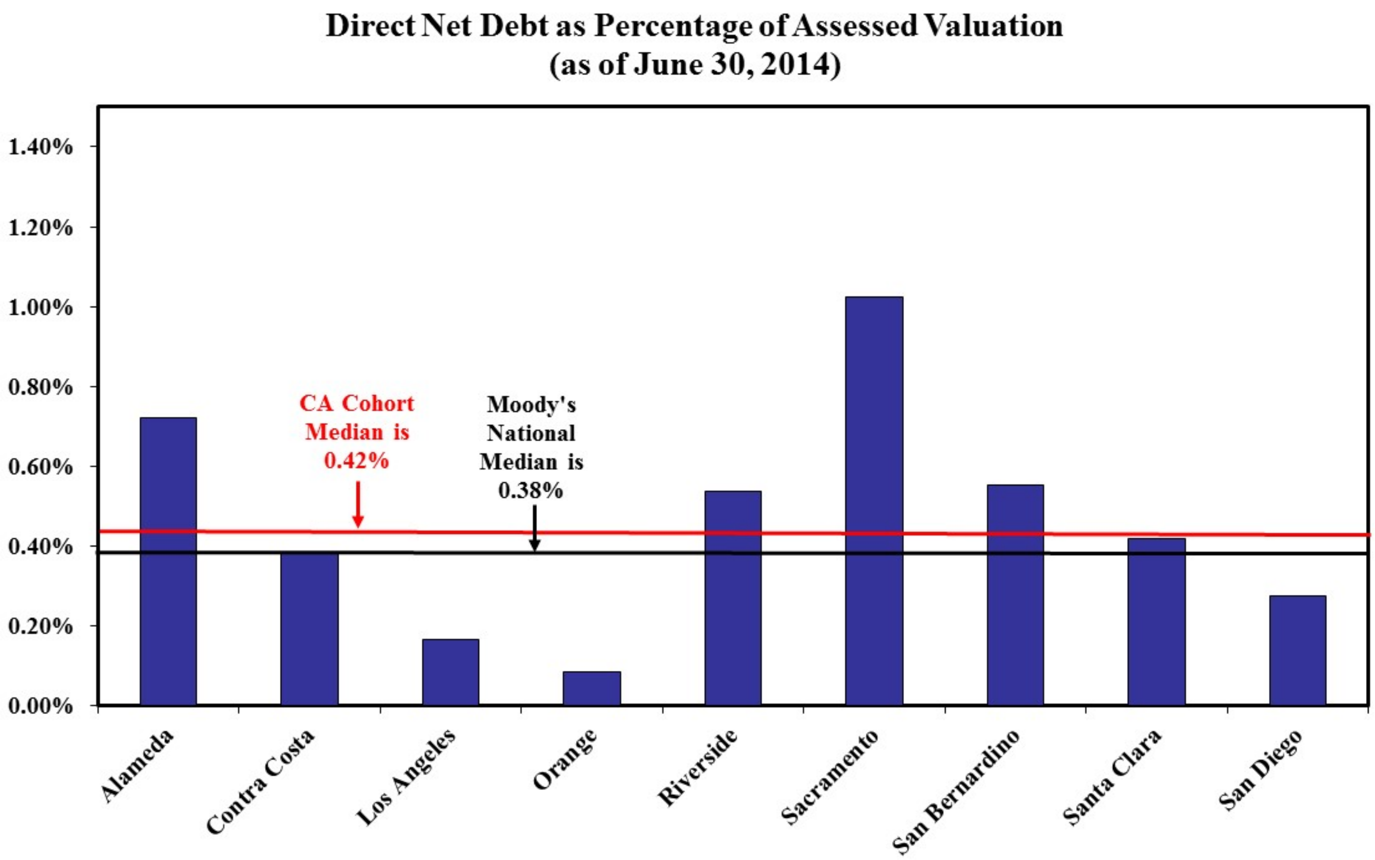
The County's ratio of Direct Net Debt to Assessed Valuation is on par with the national median but slightly below the California cohort median.  Orange and Los Angeles Counties performed best on this ratio.

**Chart 7**

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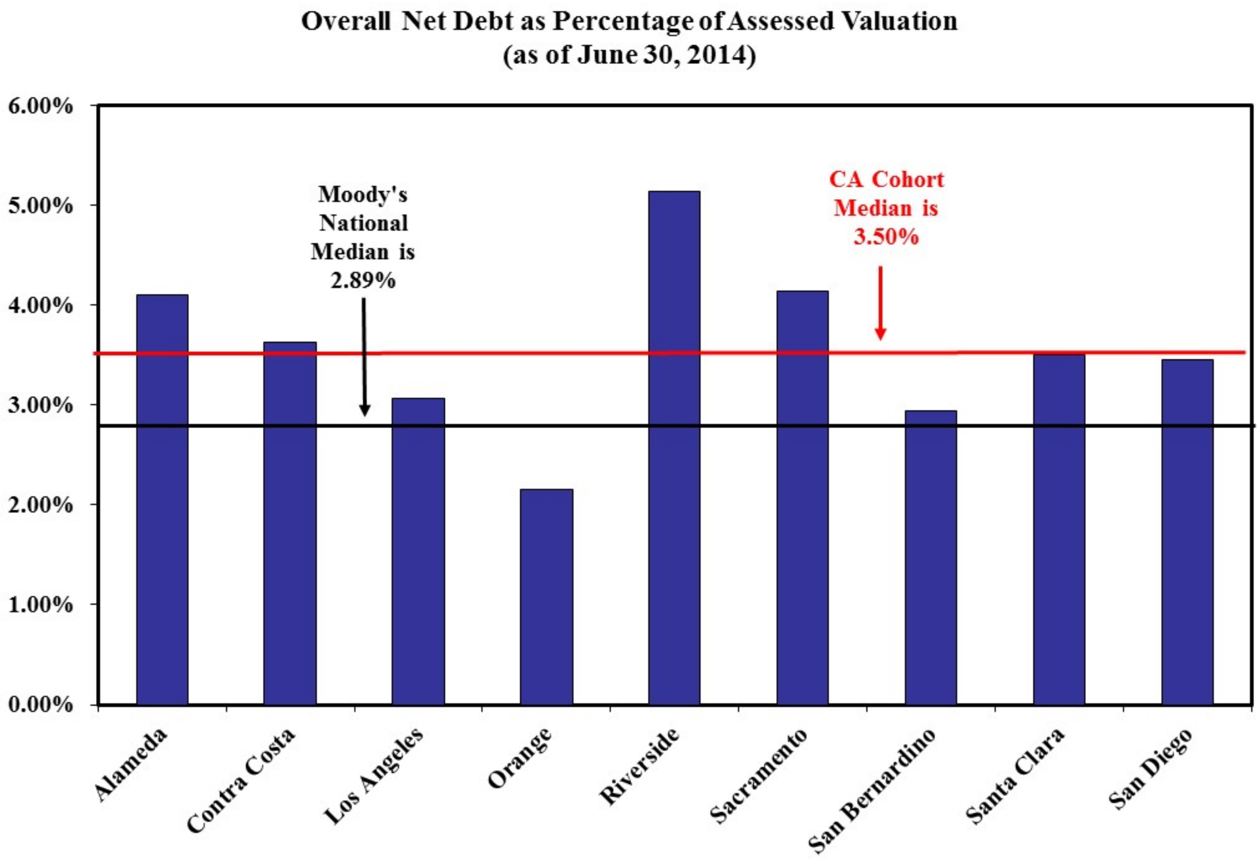
The County's ratio of Overall Net Debt to Assessed Valuation is above the Moody's median and the California cohort median. Orange County performed best on this measure, while Sacramento, Riverside, and Alameda performed worst on this measure.

**Chart 8**

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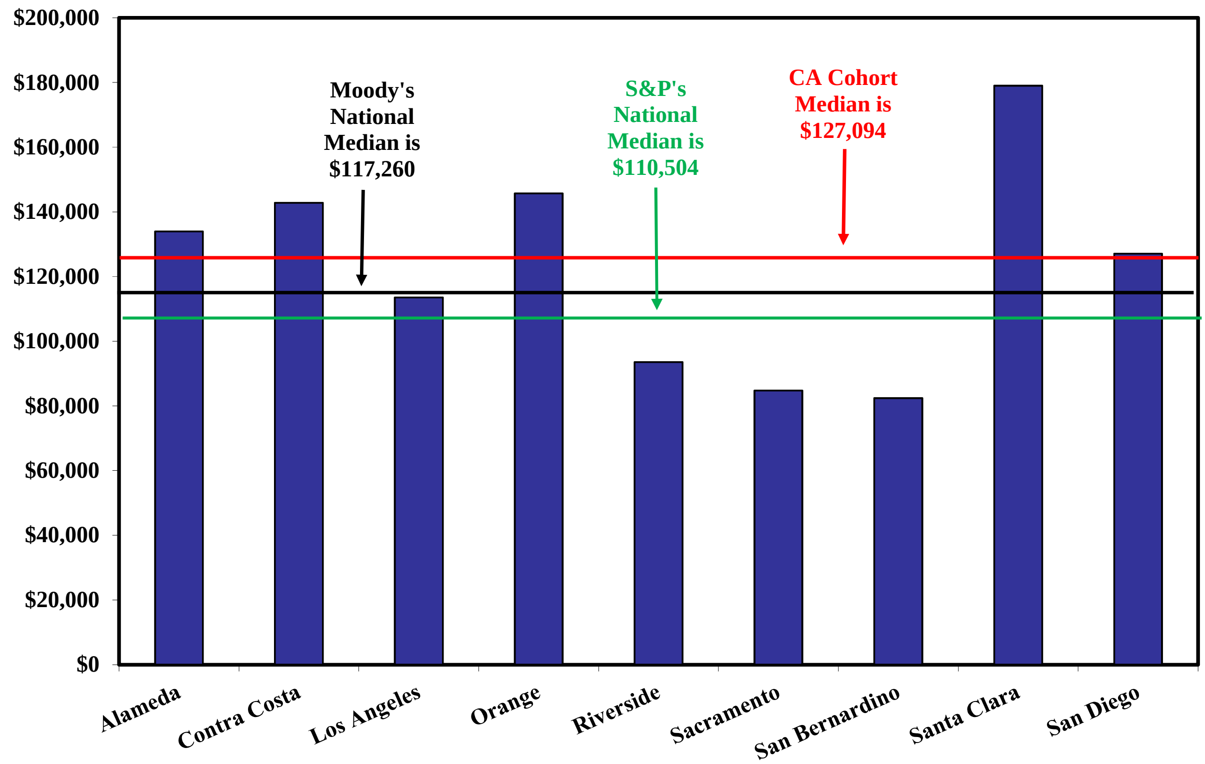
The County's performance on Assessed Valuation Per Capita is better than both the national and California cohort medians.  This reflects the County's strong underlying wealth base relative to the other counties.  Only Santa Clara County and Orange County outperformed the County on this measure.  Four of the counties – Los Angeles, Riverside, Sacramento and San Bernardino - were below the Moody's national median of $117,260 and three of the counties – Riverside, Sacramento, and San Bernardino were below the S&P national median of $110,504.

**Chart 9**

**Assessed Valuation Per Capita**
**(as of June 30, 2014)**

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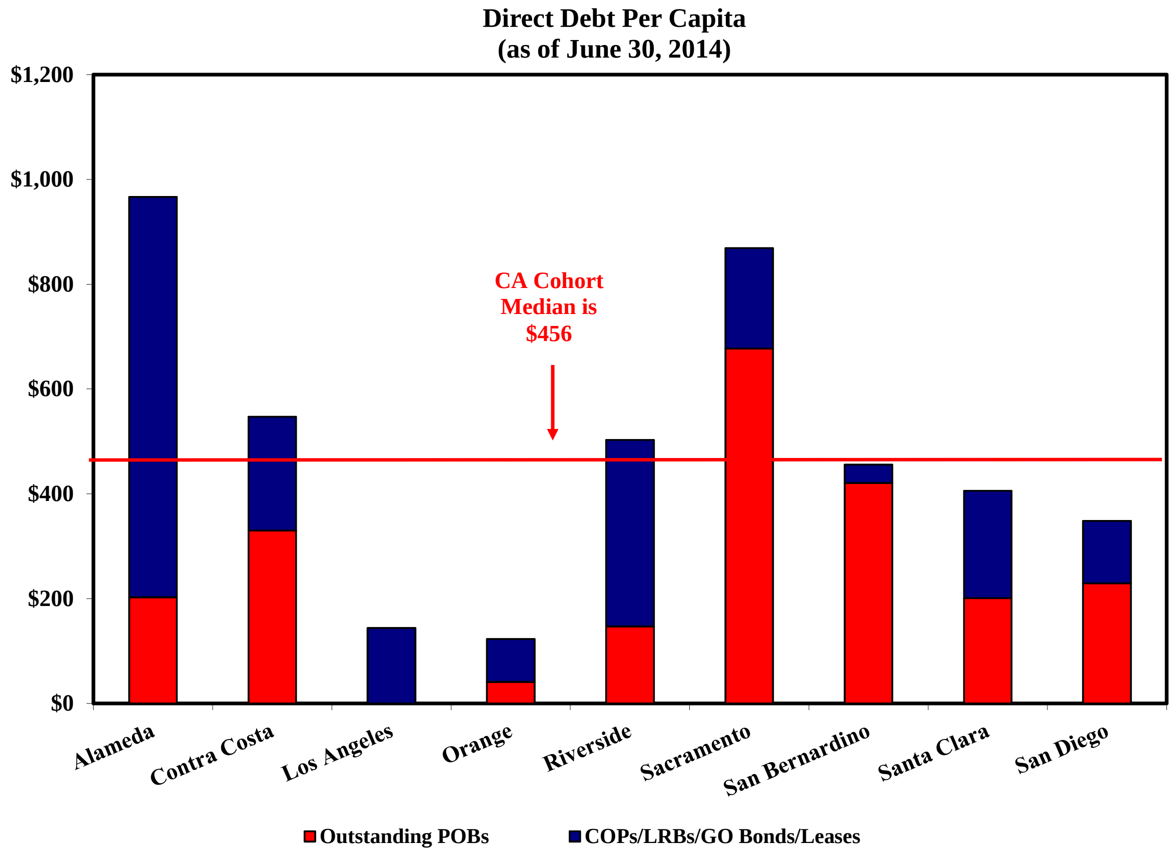
As noted previously, S&P no longer reviews Direct Debt per Capita, however, the County's performance on Direct Debt Per Capita is worse than the California cohort median calculated by MDA. Orange County has Pension Obligation Bond debt, but a portion of it is economically defeased and not shown in the chart. 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 and/or California medians might actually be closer to it.

**Chart 10**

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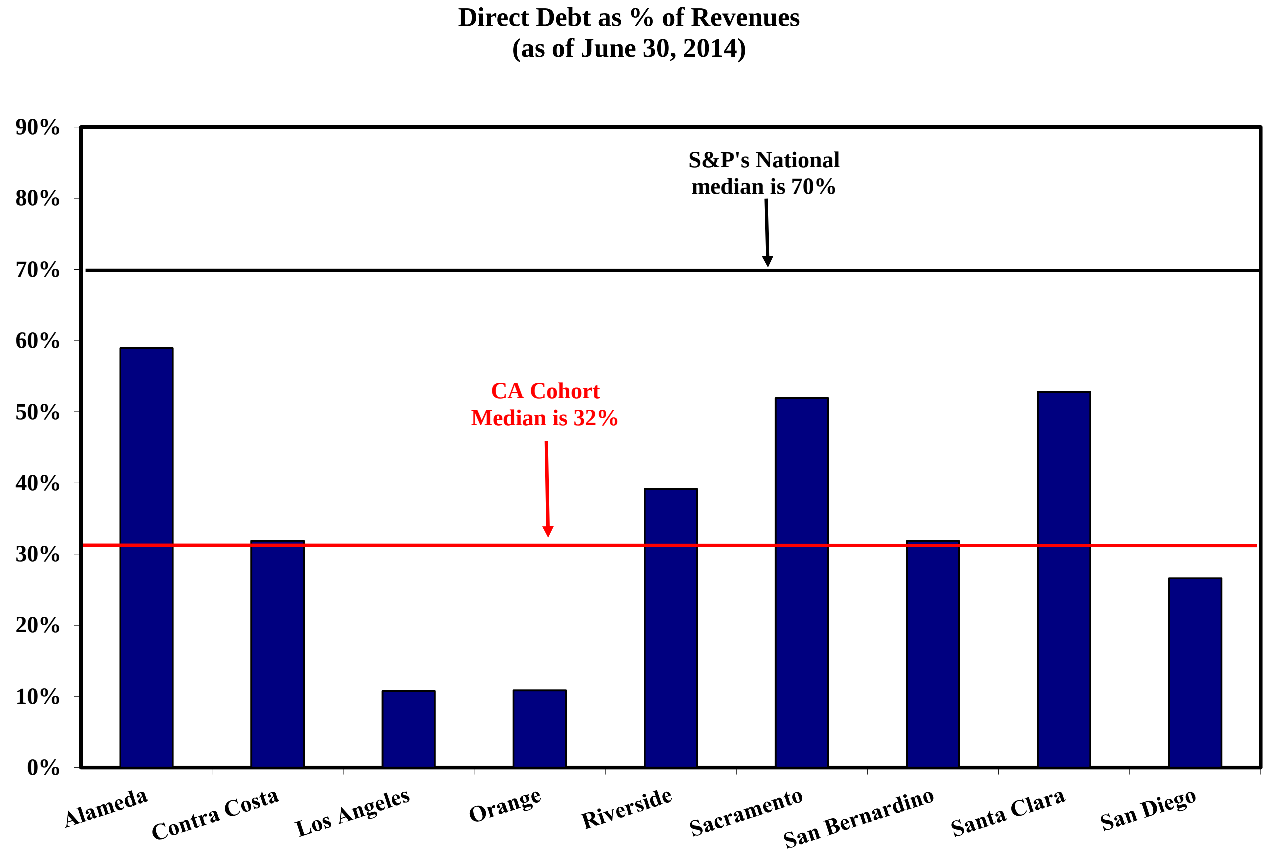
The County's Direct Debt as Percentage of Revenues was fifth among the counties, in line with the cohort median, but significantly better than S&P's national median of 70%. Alameda, Sacramento and Santa Clara counties had the worst performance against this metric, although they were still better than the S&P median.

**Chart 11**

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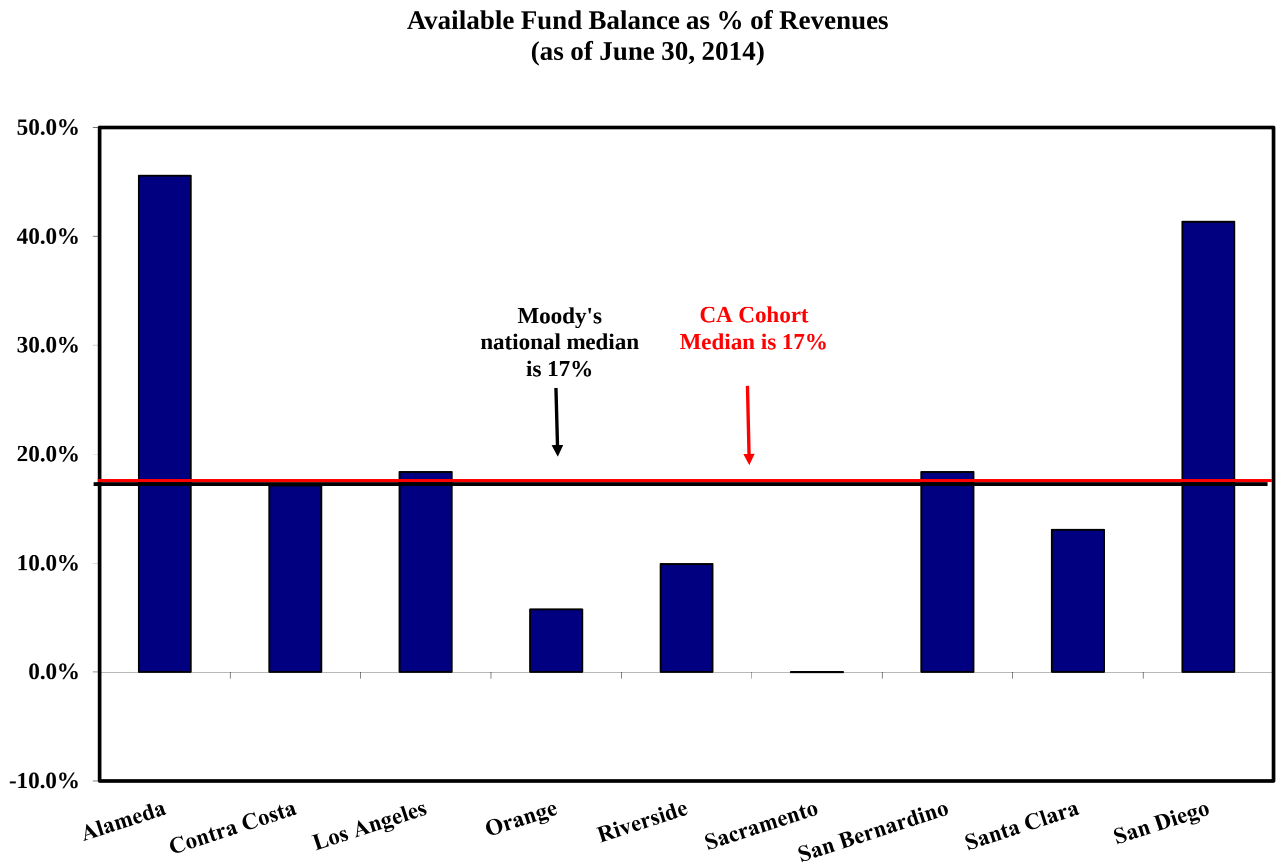
The County’s Available Fund Balance as a Percentage of Revenues was on par with the cohort and Moody’s national medians and only lower than Alameda and San Diego counties. Sacramento County recorded a negative balance.

**Chart 12**

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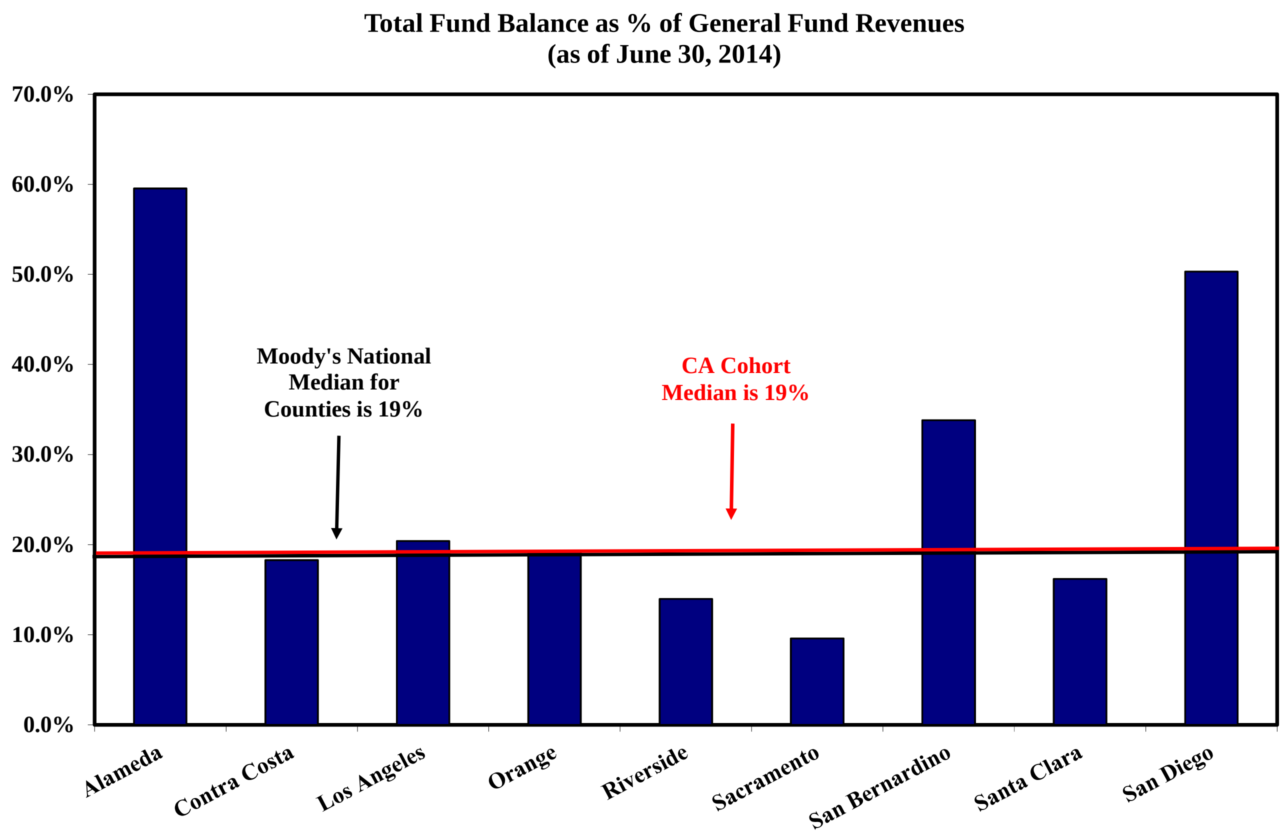
The County's total General Fund Balance as a Percentage of Revenues was fourth lowest among the counties at 18%. The cohort's median was equivalent to the Moody's national median of 19%. Alameda, San Diego and San Bernardino outperformed the other counties by a significant margin. It should be noted that a large portion (60%) of Orange County's General Fund Balance is comprised of Nonspendable Fund Balance, most of which represents discounted pre-payments to the Orange County Employees Retirement System for a portion of Fiscal Year 2013-14 pension costs.

**Chart 13**

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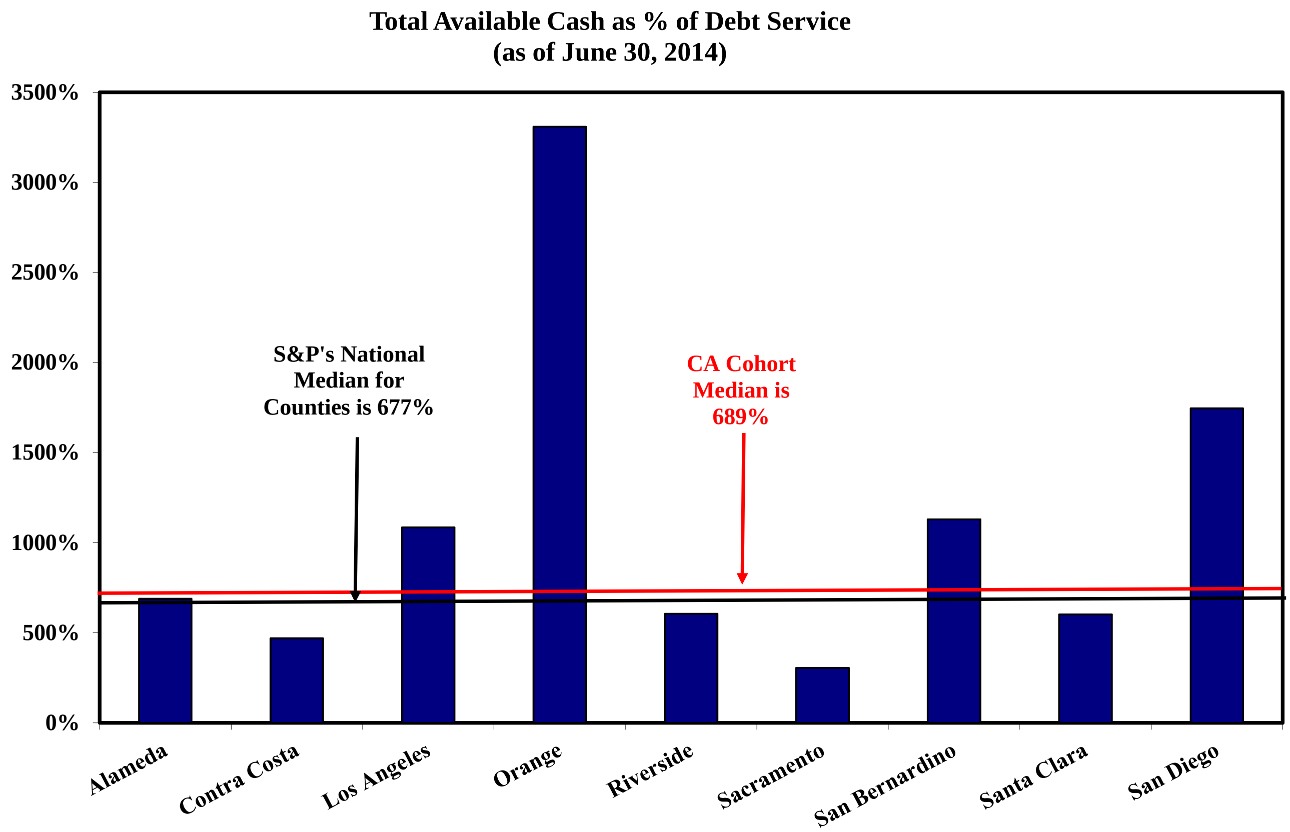
The County’s Total Available Cash as a Percentage of Debt Service was the second lowest among the counties.  Orange, San Diego, San Bernardino and Los Angeles outperformed the other counties by a significant margin.

**Chart 14**

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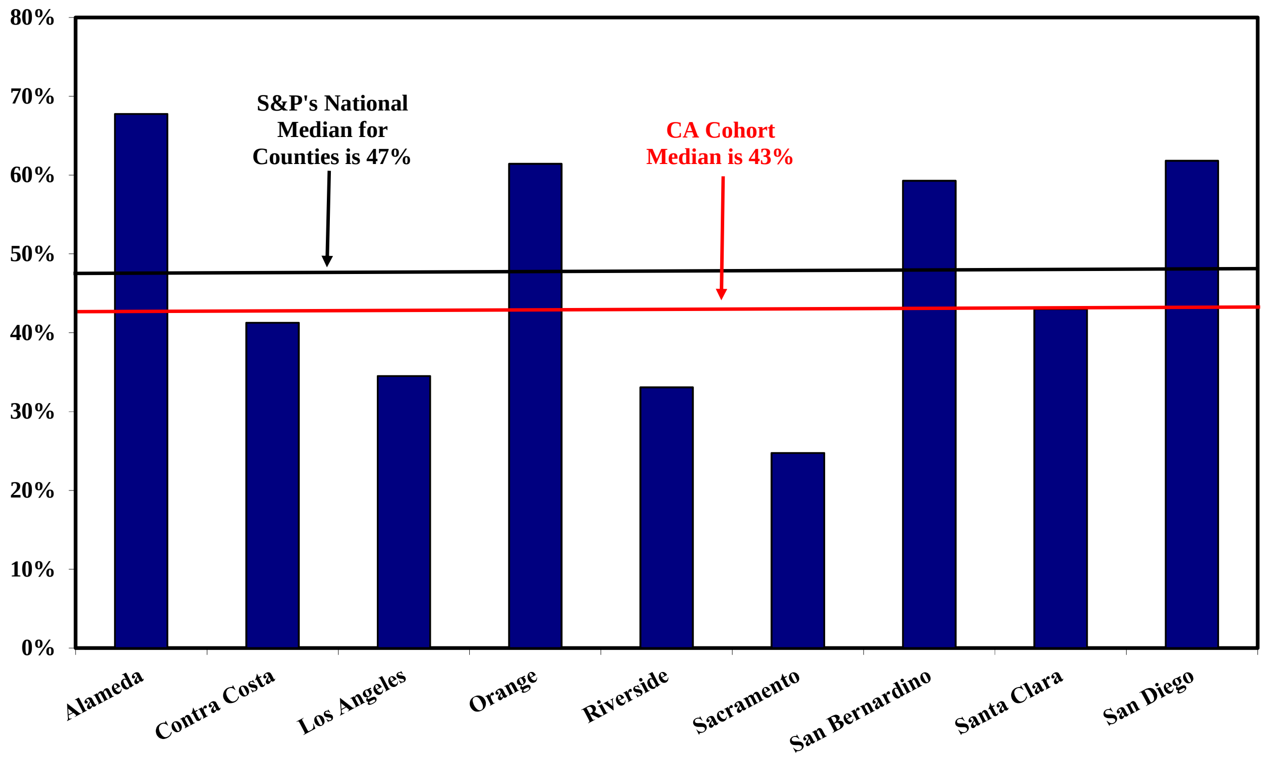
The County performed slightly worse than the cohort median for Available Cash as a Percentage of Expenditures. The cohort median was also below S&P’s national median for this metric. Alameda, Orange, San Bernardino and San Diego counties performed best against this metric.

**Chart 15**

**Total Available Cash as % of Expenditures**
**(as of June 30, 2014)**

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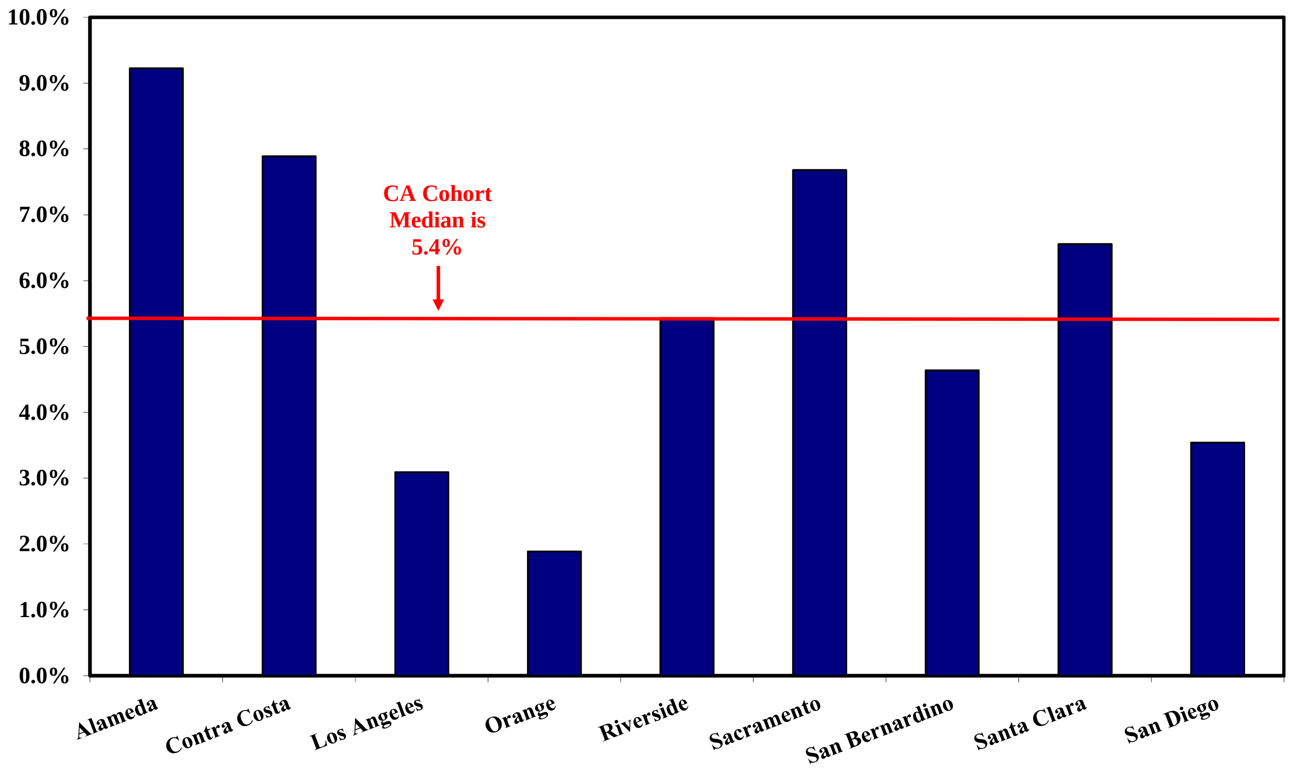
Alameda County had the highest annual debt service burden among the counties as measured by Annual General Fund Debt Service as a Percent of General Fund Revenues. The County had the second highest annual debt service burden followed closely by Sacramento County. While the County improved upon this metric in the past couple of years, its relatively worse performance may reflect the large decline in County revenues relative to the cohort counties due to prior weakness in assessed valuation performance.

**Chart 16**
**Annual General Fund Debt Service Burden as Percent of GF Revenues (as of June 30, 2014)**

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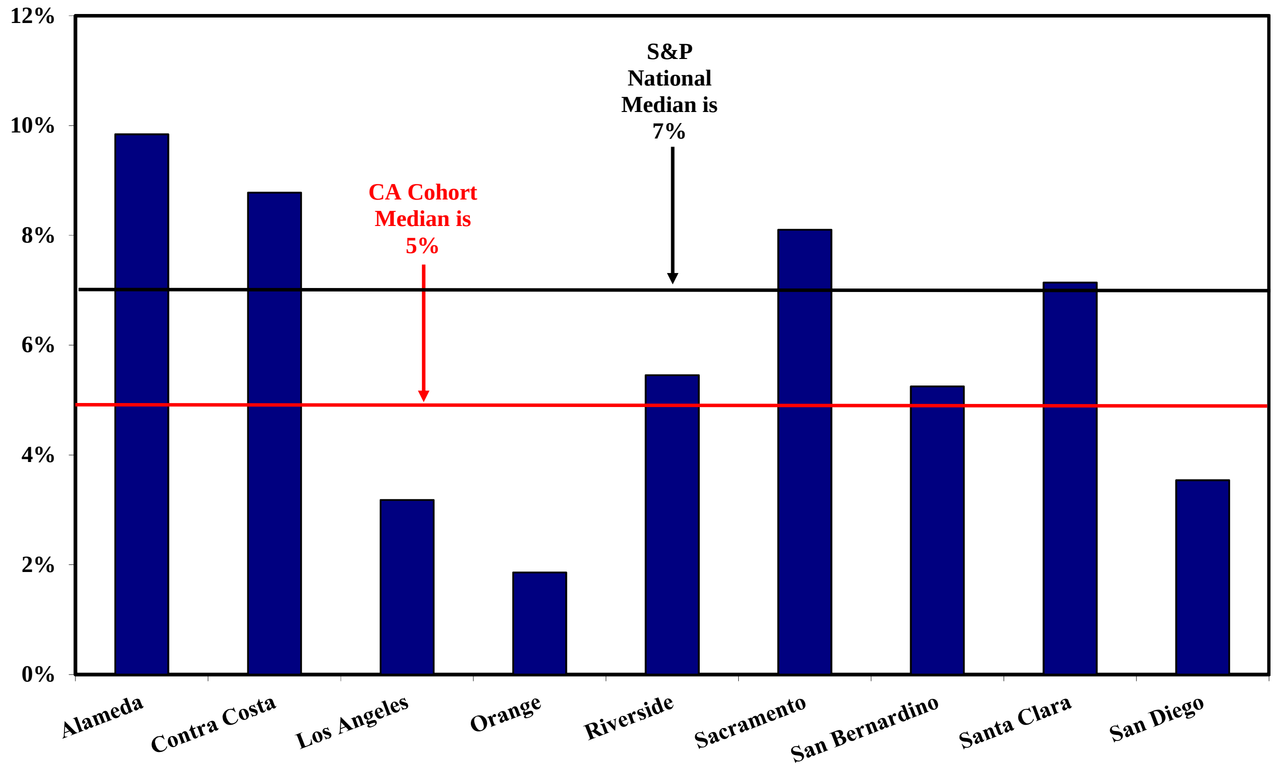
Alameda County had the highest annual debt service burdens among the counties as measured by Annual General Fund Debt Service as a Percent of General Fund Expenditures. Once again, the County and Sacramento had the second and third highest annual debt service burdens. The cohort performed better against this metric than S&P's national median.

**Chart 17**
**Annual General Fund Debt Service Burden as Percent of GF Expenditures (as of June 30, 2014)**

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## SECTION VI: UNFUNDED PENSION OBLIGATIONS AND OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The rating agencies have indicated they consider an agency's management of its respective unfunded actuarial accrued liabilities for pension costs (Pension UAAL) and Other Post-Employment Benefits (OPEB UAAL) to be significant credit factors, as Pension UAAL and OPEB UAAL costs can affect an agency's financial flexibility and performance. In Tables 7 and 8 below, the comparative Pension UAAL and OPEB UAAL performance of the cohort urban counties is presented, using information presented in the respective county CAFRs.

It should be noted that the underlying actuarial assumptions for the measurement of the Pension UAAL may vary from county to county, and that the Pension Funded Ratio may be higher than otherwise due the particular County having deposited the proceeds of POBs in the pension system. The amounts of outstanding POBs for the particular counties are presented in the table below to provide a more complete picture of pension-related debt.

The County had the fifth lowest Pension Funded Ratio. In addition to the Pension UAAL, the County also had $258.5 million of outstanding pension obligation bonds.

**Table 7**
**Comparative County Pension System UAALs and Funded Ratios**
**(as of June 30, 2014)**

| County | Pension UAAL | Pension Actuarial Valuation Date | Pension Funded Ratio | Outstanding POBs |
|---|---|---|---|---|
| Alameda | $1,650,743,000 | December 31, 2013 | 75.90% | $318,892,000 |
| Contra Costa | 1,823,681,000 | December 31, 2013 | 76.40% | 258,500,000 |
| Los Angeles | 13,315,360,000 | June 30, 2013 | 75.00% | 0 |
| Orange | 3,391,000,000 | June 30, 2014 | 60.53% | 127,206,000 |
| Riverside | 1,543,829,000 | June 30, 2014 | 79.35% | 334,510,000 |
| Sacramento | 1,267,935,000 | June 30, 2014 | 85.20% | 990,308,000 |
| San Bernardino | 1,943,517,000 | June 30, 2014 | 79.95% | 877,230,000 |
| Santa Clara | 2,653,628,000 | June 30, 2013 | 72.50% | 375,419,144 |
| San Diego | 2,031,241,000 | June 30, 2014 | 83.30% | 732,330,000 |

(1) The County-only portion of the UAAL was estimated by the actuary to be _____%. It is likely that the respective county-only portions of the UAALs for the other counties in the table are less than 100% of the related UAAL, but the data is not available.

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Among the nine counties with an OPEB liability, the County had the fifth highest OPEB Funded Ratio and the third highest OPEB UAAL as a percentage of payroll.

**Table 8**
**Comparative OPEB Liabilities**

| County | OPEB Liability | OPEB Funded Ratio | OPEB as % of Payroll | OPEB Actuarial Valuation Date |
|---|---|---|---|---|
| Alameda | $106,949,000 | 85.2% | 11.7% | December 31, 2013 |
| Contra Costa | 794,422,000 | 14.0% | 129.4% | January 1, 2014 |
| Los Angeles | 25,733,000,000 | 0.0% | 388.7% | July 1, 2012 |
| Orange | 418,061,000 | 27.1% | 35.6% | June 30, 2013 |
| Riverside | 17,065,000 | 61.1% | 1.6% | July 1, 2013 |
| Sacramento | 115,690,000 | 0.0% | 15.3% | June 30, 2013 |
| San Bernardino | 0 | N/A | N/A | Not applicable |
| Santa Clara | 1,869,900,000 | 23.1% | 127.8% | June 30, 2014 |
| San Diego | 180,238,000 | 2.7% | 17.1% | June 30, 2012 |

## SECTION VII: DERIVATIVES

Some municipal issuers undertake derivative transactions such as interest rate swaps in connection with variable rate bond issues and, less often, in connection with fixed rate bond issues. The purpose of a swap is to hedge the interest rate risk associated with the underlying bonds. Pursuant to GASB Statement No. 64, municipal entities must disclose their derivative exposure in their annual audits and provide the estimated mark-to-market value of the derivative. The mark-to-market value will fluctuate depending upon prevailing interest rates at the time of the audit and is meant to provide an estimate of the gain or loss on the derivative position should the interest rate swap be terminated at that time. Interest rate swaps contain provisions that include, among other things, automatic termination events if downgrades in the credit ratings of the municipal entity or the swap counterparty or both reach certain levels. Table 9 provides a summary of the derivative positions of the cohort counties as of June 30, 2104. The County had no derivative exposure.

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**Table 9**
**Comparative Interest Rate Swap Positions**

| County | Number of Swaps | Notional Amount | Fair Value as of 6/30/2014 | Final Maturity Date(s) |
|---|---|---|---|---|
| Alameda | 0 | Not applicable | Not applicable | Not applicable |
| Contra Costa | 0 | Not applicable | Not applicable | Not applicable |
| Los Angeles | 0 | Not applicable | Not applicable | Not applicable |
| Orange | 0 | Not applicable | Not applicable | Not applicable |
| Riverside | 1 | $76,300,000 | -$52,500,000 | 2032 |
| Sacramento | 3 | $561,970,000 | -$158,804,000 | 2030, 2034, and 2039 |
| San Bernardino | 0 | Not applicable | Not applicable | Not applicable |
| Santa Clara | 1 | $142,050,000 | -$16,976,000 | 2035 |
| San Diego | 0 | Not applicable | Not applicable | Not applicable |

## SECTION VIII: OUTSIDE MEMBERS OF THE FINANCING TEAM

Pursuant to the Policy, the County includes its 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[1]:

MDA –Financial Advisor
Orrick, Herrington & Sutcliffe LLP – Bond and Tax Counsel
Schiff Hardin LLP – Disclosure Counsel
Bond Logistix – Investment Advisor and Arbitrage Rebate Calculation Agent
Underwriters:
Banc of America Securities LLC – Merrill Lynch
Barclays Capital
Citigroup
Stifel Nicolaus & Co. - De La Rosa
J.P. Morgan
Loop Capital
Piper Jaffray
Raymond James/Morgan Keegan
RBC Capital Markets

[1] The underwriter pool was reopened in March 2009 due to the significant changes in the number of underwriting firms and movement of bankers among firms. The underwriters listed were appointed to the new underwriting pool in April 2009.

**APPENDIX 1**

**Contra Costa County**
**Debt Service Requirements for Outstanding Lease Revenue and Pension Obligation Bonds**
**(As of June 30, 2014)**

| Fiscal Year Ending 6/30 | Total Lease Debt Service (1) | Total POB Debt Service | Total Debt Service |
|---|---|---|---|
| 2015 | $33,983,436 | $35,409,894 | $69,393,329 |
| 2016 | 33,975,738 | 36,914,526 | 70,890,264 |
| 2017 | 31,574,978 | 38,484,360 | 70,059,338 |
| 2018 | 31,049,878 | 40,114,901 | 71,164,779 |
| 2019 | 30,930,766 | 41,821,636 | 72,752,402 |
| 2020 | 29,406,326 | 43,600,400 | 73,006,725 |
| 2021 | 29,403,076 | 45,452,243 | 74,855,319 |
| 2022 | 26,883,280 | 47,382,398 | 74,265,678 |
| 2023 | 26,869,519 | | 26,869,519 |
| 2024 | 16,856,664 | | 16,856,664 |
| 2025 | 14,472,145 | | 14,472,145 |
| 2026 | 12,830,207 | | 12,830,207 |
| 2027 | 11,629,503 | | 11,629,503 |
| 2028 | 5,477,077 | | 5,477,077 |
| 2029 | 2,471,648 | | 2,471,648 |
| 2030 | 2,472,696 | | 2,472,696 |
| 2031 | 2,473,619 | | 2,473,619 |
| 2032 | 2,474,104 | | 2,474,104 |
| 2033 | 2,472,122 | | 2,472,122 |
| 2034 | 2,472,674 | | 2,472,674 |
| 2035 | 2,475,569 | | 2,475,569 |
| 2036 | 2,470,618 | | 2,470,618 |
| 2037 | 2,471,885 | | 2,471,885 |
| 2038 | 2,475,073 | | 2,475,073 |
| 2039 | 2,474,988 | | 2,474,988 |
| 2040 | 2,471,630 | | 2,471,630 |
| TOTAL | $365,019,217 | $329,180,356 | $694,199,573 |

(1) Excludes capital leases; includes federal subsidy receipts for certain lease revenue bonds (Build America Bonds and Recovery Zone Bonds).

## APPENDIX 2

## Contra Costa County

### History of Underlying Long-Term Ratings Since 1995 [1]

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

**(as of June 30, 2014)**

| | 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** |
| 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- |
| 2008 | Aa3 | AA | A1 | AA- | A2 | AA- |
| 2009 | Aa3 | AA | A1 | AA- | A2 | AA- |
| 2010[6] | Aa2 | AA | Aa3 | AA- | A1 | AA- |
| 2011 | Aa2 | AA | Aa3 | AA- | A1 | AA- |
| 2012[7] | Aa2 | AA | Aa3 | AA- | A1 | AA- |
| 2013 | Aa2 | AA | A1 | AA- | A1 | AA- |
| 2014[8] | Aa2 | AAA | A1 | AA+ | A1 | 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 never requested underlying ratings from Fitch, Fitch automatically assigned its rating to all insured County issues since Fiscal Year 2002-03.

[2] Beginning in 1996, Moody's began to rate pension obligation bonds 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 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. On December 1, 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".

[6] The changes in Moody's ratings reflect the recalibration of ratings completed by Moody's in April 2010.

[7]On February 20, 2013 Moody's downgraded the County's Pension Obligation Bonds to A1 with a "Stable" outlook.

[8]On December 19, 2013, S&P upgraded the County's ratings for each type of debt.

**APPENDIX 3**

**County of Contra Costa**
**Debt Management Policy**