

City of Citrus Heights

Debt Policy

November 2019

Presented to Council on November 14, 2019

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I. INTRODUCTION

A. Purpose of the Policy

The purpose of creating a Debt Management Policy is to establish and codify the goals and rules for debt management of the City and to assist all concerned parties in understanding the City's approach to debt management. The City has the right to waive or modify this policy if, in the City's judgment, doing so advances the City's objectives and is deemed fiscally prudent.

This Policy is a tool to ensure that financial resources are adequate to meet long-term service objectives and that financings undertaken by the City satisfy certain clear objective standards which allow the City to protect its financial resources in order to meet its long-term capital needs.

The City of Citrus Heights Debt Management Policy will provide operating guidelines for all major debt transactions of the City. Guidelines specifically applicable to land-secured (Community Facilities Districts and Assessment Districts) and conduit financings will be included in a separate policy. The above stated purpose of the policy is achieved through the following objectives:

- To guide the City Council and management in debt issuance decisions having significant fiscal impact;
- To maintain appropriate capital assets for present and future needs;
- To promote sound financial management by providing accurate and timely information on financial condition;
- To protect and enhance the City's credit rating;
- To ensure the legal use of city bonding authority through an effective system of financial security and internal controls;
- To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

B. Management Approach

The City will manage its debt to ensure high credit quality, access to credit markets, financial flexibility, and the lowest overall long-term cost of debt for Citrus Heights residents and businesses.

1. Credit Quality

All City debt management activities will be conducted to receive the highest credit rating possible and then to, at a minimum, maintain at least the current credit ratings assigned to the City's debt by the major credit rating agencies. The City will use the following standards and limits to guide its maintenance of credit quality:

- The City shall not exceed 50 percent of statutory debt limits.
- Overlapping debt (including debt from all other jurisdictions which tax Citrus Heights taxpayers) will be taken into consideration in planning debt issuance.

2. Standards for Use of Debt Financing

City policy will promote the use of debt only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing. Whenever possible, the debt shall be self supporting.

- *Long-term Capital Projects:* Debt will be used primarily to finance long-term capital projects – paying for the facilities or equipment over their useful life and concurrent with the stream of benefits from these facilities.
- *Special Circumstances for Debt Issuance:* Debt may be used in special circumstances for other than long-term capital projects, only after careful policy evaluation by the City Council and management.

3. Recordkeeping

The Finance Division will develop and maintain a central system for all debt-related records. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, leases, etc. for all City debt. The extent that official transcripts incorporate these documents, possession of a transcript will suffice. The Finance Division will collect all available documentation for outstanding debt, and will develop a standard procedure for archiving transcripts for any new debt.

4. Rebate Policy and System

It will be the policy of the City to accurately account for the interest earning on all funds while minimizing rebates to the Federal Government.

5. Disclosure and Market Relationships

The City will establish a system of disclosure which will ensure that investors, rating agencies and other interested parties are provided full and accurate disclosure of all matters relevant and material to each debt issue. All City official statements will be designed to meet or exceed the disclosure guidelines developed by the Government Finance Officers Association or other industry standards.

- *Investment in Community Relationships:* Private decision makers and opinion-leaders in the investment community can have a significant effect on the City's borrowing cost. In order to ensure the lowest possible cost of capital, the City shall seek to maintain positive relationships with all members of the investment community. The City will also solicit information and opinions from credit market participants regarding ways to enhance the City's image in the markets. The foundation of these positive relationships will be frequent, open, and effective communication of the City's financial status to these parties. The City will seek to inform the investment community through a yearly publication detailing the financial health and fiscal forecasts of the City. The City Comprehensive Annual Financial Report (CAFR) may be used for this purpose. The CAFR will be available on the City's website.
- *Rating Agencies:* Once the City receives credit ratings from national rating agencies, the City will prepare and submit an annual report to the rating agencies on the financial condition of the City. The City's Comprehensive Annual Financial Report may be used for this purpose.

II. PROCESS

A. Evaluation of Financing Proposals

1. Submission and Review of Financing Proposals

Early communication with the City is encouraged to assist applicants in evaluating the feasibility of available financing programs and to discuss program procedures. The submission of a proposal does not guarantee the feasibility of project or the City's willingness to proceed with any project.

2. Assessment of Alternatives

The review of financing proposals will include a review of all alternatives, including cash financing, which could lower the net present value of acquiring the capital asset.

3. Establishment of Financing Priorities

In evaluating individual financing proposals, the Finance Division will consider all pending financing requirements of the City. This approach will allow the City to take a long-term strategic approach to each financing in order to ensure that each financing is completed efficiently, at the lowest cost, and will not negatively impact future City transactions.

B. Use of Consultants

The City shall select, retain, employ, and be responsible for, in its sole discretion, any consultants necessary for the formation of a special district, review of the financing, and the issuance and administration of bonds, including but not limited to the underwriter and underwriters' counsel; bond counsel; financial advisor; special tax consultant; engineers; appraiser; district administrator; market absorption study consultant; or any other consultant deemed necessary by the City in its judgment to complete the district proceedings and/or for issuance of bonds.

An applicant/developer may retain its own consultants for its own benefit, but will work through those consultants hired by the City. If the developer/applicant retains its own consultants, all costs associated therewith shall be borne by the developer/applicant.

C. Land Use Approvals

All proposed projects within the proposed district or project area, together with the infrastructure and public facilities, must be consistent with the City's adopted General Plan, zoning classifications, and the California Environmental Quality Act (CEQA). All property within the proposed district must possess land use determinations or zoning classifications of sufficient certainty, and facility requirements of sufficient specialty that each parcel can be adequately assessed.

III. FINANCING CRITERIA

A. Types of Debt

1. Long-Term Debt

Whenever possible, long-term debt will be self supporting and as such will be revenue debt, or revenue-backed with a general fund pledge. Other long-term debt may be issued as best meets the City's needs.

2. Short-Term Debt

- *Bond Anticipation Notes (BANS)* may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANS shall not mature more than 3 years from the date of issuance. BANS shall mature within 6 months after substantial completion of the financed facility.
- *Tax and Revenue Anticipation Notes (TRANS)* shall be issued only to meet actual cash flow needs and shall never exceed 10 percent of projected budget resources.
- *Lines of Credit* shall be considered as an alternative to other short-term borrowing options.

3. Lease Purchase Debt

Lease purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation.

4. Bond Pools and Other Governmental Cooperatives

Bond Pools and other governmental cooperatives will be considered as an alternative when deemed to be prudent and economically beneficial.

5. Variable Rate Debt

The City will consider variable rate debt only in the following circumstances:

- *High Interest rates:* Interest rates are above historic average trends.
- *Variable Revenue Stream:* The revenue stream for repayment is variable, and is anticipated to move in the same directions as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.
- *Adequate Safeguards against Risk:* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate caps.

6. Swaps, Foreign Markets

The City will not issue any foreign denominated debt nor engage in any interest rate swaps.

B. Terms and Conditions of Bonds

All terms and conditions of the bonds shall be established by the City. The City will control, manage and invest all bond proceeds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

1. Term

If a single series of bonds is contemplated, the bonds will mature within a period that is no greater than twenty-five (25) years unless extended to more closely relate the final maturity to the useful life of the facility being financed. If multiple series of bonds are contemplated, the term of

each series will be appropriately determined to meet the City's objectives.

2. Capitalized Interest

Unless otherwise agreed to by the City, interest shall not be funded (capitalized) beyond two years or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds to be funded from the proceeds of the bonds.

3. Debt Service Structure

Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of the asset. Beginning with the commencement of the repayment of principal, annual debt service of the City's General Obligation indebtedness shall be retired on a level debt service basis unless project circumstances require otherwise. To the extent that bonds are issued in series, individual series of bonds may have uneven debt service if the intent is to create level debt service at such time as all series of bonds are issued and to minimize the potential of a fluctuating annual special tax assessment.

4. Counsel Opinion

Prior to the issuance of bonds, the City shall authorize its bond counsel to commence and process to final judgment an action establishing the validity of the proceedings, special tax and issuance of bonds, unless advised to the contrary by such bond counsel.

5. Underwriter's Discount

The underwriter's discount shall be negotiated and determined solely by the City and shall be competitive with and comparable to such discounts on similar financing being issued by the City or other public entities. The City shall consider any other compensation the underwriter may be receiving in connection with the bond financing in determining the appropriate amount of the discount.

6. Original Issue Discount

An original issue discount will be permitted only if the City determines that such discount results in a lower true interest cost on the bonds.

7. Multiple Series

In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and will be subject to the earliest or most senior lien.

C. Credit Enhancements

The City will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall an enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements.

1. Bond Insurance

The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on the bonds insured versus uninsured.

2. Debt Service Reserve

A reserve fund equal to the lesser of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service, or one-hundred-twenty-five percent (125%) of average annual debt service (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations. The City shall have the authority to purchase reserve equivalents when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis (i.e., the use of a reserve fund surety).

3. Letters of Credit

The City shall have the authority to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous.

D. Refunding

All proposed refunding or refinancing issues will be submitted to the Finance Director for review with complete disclosure of the benefits and costs of the proposed refinancing. The City will analyze outstanding bond issues for refunding opportunities. In addition, the City will accept refunding proposals from underwriting firms and financial advisors which the City will then analyze and verify. The City will consider the following issue/criteria in analyzing refunding possibilities:

1. Debt Service Savings

The City will require net present value savings of at least three (3) percent of the refunded bond principal amount or at least \$750,000 (including foregone interest earnings). The present value savings will be net of all costs related to the refinancing.

2. Advance Refunding

The advance refunding of outstanding indebtedness may be appropriate to meet City service and financial objectives. However, each advance refunding approximately doubles the total volume of Citrus Heights bonds outstanding to fund a service or facility while the refunded bonds remain outstanding. In giving its authorization for the advance refunding, the City will state the reasons and goals to be achieved by the refinancing, as well as acknowledging that each bond issue is allowed to be advance refunded only once.

3. Restructuring

The City will refund debt to achieve a restructuring of its debt when it is in the best financial interest of the City to do so. Such refundings will be limited to restructuring to meet unanticipated revenue expectations or to remove unduly restrictive bond covenants. No such restructurings will be undertaken if they result in a net present value loss to the City

unless necessary to avoid default or to ensure the long term financial viability of the entity involved.

4. Term of Refunding Issues

No refunding shall result in the extension of debt service payments beyond the term of the originally issued debt. The term may be shortened to realize greater savings, but such shortening should be guided by the remaining useful life of the financed facility and the concept of inter-generational equity.

E. Methods of Issuance

The City will issue its debt through competitive sale, negotiated sale, or private placement. The Finance Division shall provide a recommendation to the City Council as to which method of issuance shall be used. The recommended method will provide significant cost advantages to the City or eliminate or reduce certain risks such as those related to the timing of sales.

1. Methods of Issuance

- Competitive Sale: the underwriter is selected through a competitive bid process after origination activities are completed by the City.
- Negotiated Sale: the underwriter, who is selected through a request for proposal process, performs the tasks associated with origination.
- Private Placement: securities are placed directly with the investor and are not offered for sale to the general public.

2. Issuance Method Analysis

The City shall evaluate each method of issuance on a net present value basis.

3. Feasibility Analysis

Issuance of self-supporting revenue bonds will be accompanied by a feasibility report demonstrating the projected revenue stream's ability to meet future debt service payments.

F. Terms and Conditions of Sale

The City shall establish the terms and conditions of the sale prior to the actual sale date. In competitive sales the terms shall be approved by the Finance Director prior to the publication of the notice of sale. In negotiated sales, the terms shall be set in an underwriting agreement at least five days prior to the pricing of the securities.

1. General

- *Call Provisions:* The City will have its financial advisor or underwriter analyze the cost of all provisions for each financing. Based upon this analysis, the City's securities will provide for redemption at the option of the City as early as current market conditions allow, given the appropriate cost-benefit to the City. In general, the City's securities will include a call at par no later than 10 years from the date of delivery of the bonds (and approximately 50% of the life of the last maturity for issues which are shorter than twenty years).

- *Bond Denominations:* In general, the City's securities will have denominations of \$5,000. The City will consider denominations of less than \$5,000 if targeting special markets. When undertaking a project the City believes is necessary for its general health and welfare, but has higher-than-normal risks associated with it, the City may require denominations of greater than \$5,000 to insure that only sophisticated buyers can purchase these bonds.

2. Competitive Sale

When conducting a competitive sale, the City will undertake to publish a Preliminary Official Statement (POS). Such POS shall be prepared by the Finance Division, with the assistance of the City's financial advisor. The POS and final Official Statement shall be published according to timelines established by the Municipal Securities Rulemaking Board (MSRB) and other rulemaking bodies.

- *Market:* The City shall inform the potential market for its securities on a timely basis prior to the sale date and make available sufficient POSs to assure the maximum number of bids for all of the City's sales. The market for municipal securities is increasingly a national market. In marketing the City's bond issues, trends, structures, and factors in the California regional markets as well as national credit markets should be considered. The City's marketing should be designed to take maximum advantage of the factors in both the national and regional markets which will provide the lowest borrowing cost for City residents and businesses.
- *Official Bid Form:* The City shall make available an official bid form for all sales, which will be used by all bidders and provide a common structure for all bids.
- *Bid Constraints:* The City will list any constraints of the bid so desired. In general, the City shall not allow a discount to exceed two (2) percent of the par amount of the securities. Discounts and other bid constraints should be guided by prevailing state and federal law.
- *Award of Bid:* All bids shall be evaluated by the True Interest Cost Method (TIC). Bids shall be awarded to the lowest TIC bidder.

3. Negotiated Sale

When conducting a negotiated sale:

- *Selection of Underwriter:* The City shall select the negotiated underwriter through a request for proposal for underwriting services. The City may select more than one underwriter for a single issue. Underwriter selection will be based on the Firm's demonstrated experience and ability to market the type and size issue being contemplated, assigned personnel's experience with similar credits and structure, estimated costs and fees, and the proposed marketing plan.
- *Negotiating Techniques:* The City shall separate the negotiation of the terms of the bonds, the management fees, the expenses

chargeable and the underwriting fees from the takedown and rate discussion. The City shall receive a pre-pricing book, before the sale date, which will include comparable sales and proposed rates and prices for the bonds. On the day of the pricing, only interest rates and takedown will be discussed unless takedown has been previously agreed upon. In cases where the bonds will be offered at an Original Issue Discount, this too may be discussed at the time of the sale

4. Private Placement

From time to time the City may seek to privately place its securities. The City will send inquiries to several investors seeking interest in such a placement. The City will seek bids from such private placements for its securities.