# City of Citrus Heights

# Debt Management Policy

# December 2019

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# DEBT MANAGEMENT POLICY

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## PURPOSE

The purpose of this Debt Management Policy ("Policy") is to establish guidelines and parameters for the effective governance, management and administration of the debt of the City of Citrus Heights. This Policy is intended to comply with California Government Code section 8855(i), and any successor statute, and shall govern all debt which is contemplated or incurred by the City.

The City hereby recognizes that a fiscally prudent Debt Policy is required to:

- Maintain the City's sound financial position.
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City's credit-worthiness.
- Ensure that all debt is structured to protect both current and future taxpayers, ratepayers and constituents of the City; and.
- Ensure that the City's debt is consistent with the City's planning goals, objectives, capital improvement program and/or budget.

## POLICIES

### A. Purposes For Which Debt May Be Issued

**Long-Term Debt** Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the City.

Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.

- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

The City may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the City Council.
- The maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed.
- The Assistant City Manager estimates that sufficient revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with all applicable state and federal laws.

**Short-Term Debt** Short-term debt may be issued to provide financing for the City's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects. For example, the City may undertake lease-purchase financing for equipment.

**Financings on Behalf of Other Entities** The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of the City. In such cases, the City will take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

**B. Types of Debt**

The City may issue all such types of debt as are permitted by the State Constitution, applicable State Statutes and the City's ordinances which may include, but are not limited to:

- General Obligation Bonds
- Revenue Bonds
- Certificates of Participation
- Lease-Purchase Transactions
- Land Secured Financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, assessment bonds and bonds secured by voter-approved parcel taxes
- Refunding Obligations
- Conduit Financings, such as financings for affordable rental housing and qualified 501(c)(3) organizations

## C. Relationship of Debt to Capital Improvement Program and Budget

New debt issues should be analyzed for compatibility with the City's Five-Year Capital Improvement Plan. The City will strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The City will seek to avoid the use of debt financing to fund infrastructure and facilities improvements that are the result of normal wear and tear. The City will seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

## D. Policy Goals Related to Planning Goals and Objectives

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City may issue debt for the purposes stated in this Policy and, in doing so to implement policy decisions incorporated in the City's annual operating budget and Five-Year Capital Improvement Plan.

It is a policy goal of the City to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

The City shall periodically review its outstanding debt for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service costs. For refundings undertaken to achieve debt service savings, the sum total of all savings (net of expenses and funds contributed by the City at the time of closing), discounted to the present at the bond true interest cost, should at a minimum produce net present value savings equal to at least 3% of the par amount of refunding bonds to be sold. Refunding may also be undertaken for reasons other than to achieve debt service savings, such as to remove restrictive covenants or restructure debt payments. Such restructuring refundings do not need to achieve 3% net present value savings.

## E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the City will comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The City will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings under SEC Rule 15c2-12,
- Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- The City's investment policies as they relate to the investment of bond proceeds.

Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager, as the chief administrative officer of the City, or the Assistant City Manager of the City, as the treasurer of the City. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Assistant City Manager of the City, as the treasurer, shall retain records of all expenditures of proceeds through the final payment date of the debt.