RESOLUTION NO. 2019-100

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REEDLEY ADOPTING A REVISED CAPITAL FINANCING AND DEBT MANAGEMENT POLICY

WHEREAS, in 2015, the City of Reedley adopted a Capital Financing and Debt Management Policy to establish written guidelines, allowances, and restrictions to guide debt issuance practices, management of a debt portfolio, and adherence to various laws and regulations; and

WHEREAS, this policy is intended to improve the quality of decisions concerning the appropriateness of debt for a particular use, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning; and

WHEREAS, a clearly articulated Capital Financing and Debt Management Policy that is reviewed and amended from time to time signals to rating agencies and the capital markets that a government is well managed and therefore likely to meet its debt obligations in a timely manner; and

WHEREAS, the City desires to cultivate and maintain an ongoing ability to incur reasonable debt and other long-term obligations at favorable interest rates for capital improvements, facilities and equipment beneficial to the City and necessary for essential services; and

WHEREAS, SB 1029 (2016), enacted Government Code 8855(i), which requires certain elements be included in a debt management policy adopted by local agencies in the State, and the City desires to update the Capital Financing and Debt Management Policy to ensure compliance with those requirements;

WHEREAS, the City Council desires to adopt a revised policy providing guidance on the issuance and management of City debt, which includes debt issued by the City's related entities, including the Successor Agency to the Reedley Redevelopment Agency and the Reedley Public Financing Authority.

NOW, THEREFORE, BE IT RESOLVED THAT the revised Capital Financing and Debt Management Policy attached hereto as Exhibit "A" is adopted and shall remain in effect until modified or rescinded by subsequent resolution of the City Council.

This foregoing resolution is hereby adopted this 12th day of November, 2019, by the following vote:

AYES: Betancourt, Soleno, Beck, Fast.

NOES: None.

ABSTAIN: None.

ABSENT: Pinon.

Mary L. Fast

~~Frank Piñon, Mayor~~

Mary L. Fast, Mayor Pro-Tem

ATTEST:

Sylvia Plata, City Clerk

CITY OF REEDLEY INCORPORATED FEB. 18, 1913

Exhibit 'A'

CAPITAL FINANCING AND DEBT MANAGEMENT POLICY

This Capital Financing and Debt Management Policy is intended to guide the issuance of debt by the City and each other entity for which the City Council serves as the governing body, including the Successor Agency to the Reedley Redevelopment Agency and the Reedley Public Financing Authority, and references to "City" herein shall include all such related entities. This policy may be amended from time-to-time by resolution of the Council and its terms may be waived in connection with a particular financing being undertaken by the City or a related entity.

A. Capital Financing

1. The City will generally consider the use of debt financing only for capital improvement projects or equipment acquisitions, and only under the following circumstances:

   A. When the equipment or project's useful life will exceed the term of the financing.

   B. When project revenues or specific resources will be sufficient to service the long-term debt.

2. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures, or equipment acquisitions where the total purchase price is below $100,000. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation.

3. Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes or developer agreements when benefits can be specifically attributed to users of the facility. Accordingly, development impact fees should be created and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.

4. The City is committed to long-term capital planning. The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes.

5. It is a policy goal of the City to serve its 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.

6. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements or equipment acquisition:

   <u>Factors Favoring Pay-As-You-Go Financing</u>

   A. Current revenues and adequate fund balances are available or project phasing can be accomplished.

   B. Existing debt levels adversely affect the City's credit rating.

C. Market conditions are unstable or present difficulties in marketing.

Factors Favoring Long Term Financing

D. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.

E. The project securing the financing is of the type, which will support an investment grade credit rating.

F. Market conditions present favorable interest rates and demand for City financings.

G. A project is mandated by state or federal requirements, and resources are insufficient or unavailable.

H. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable, generally attributed to health & safety.

I. The life of the project or asset to be financed is 10 years or longer.

B. Debt Management

1. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.

2. An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations. This analysis will also address the reliability of revenues to support debt service.

3. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.

4. The City will seek an investment grade rating (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.

5. The City will monitor all forms of debt annually and report concerns and remedies, if needed, to the Council.

6. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.

7. The City will maintain good, ongoing communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement). The Assistant City Manager shall be the "disclosure coordinator" for the City, with primary responsibility for working with outside consultants (e.g., financial advisor, underwriter, disclosure counsel) and other City staff to

ensure there are no material misstatements or omissions in Official Statements used to market and sell long-term debt. The disclosure coordinator shall also have primary responsibility for ongoing disclosures required under SEC Rule 15c2-12 or State law. See also "Item I. Post-Issuance Internal Control Procedures and Reporting."

8. The City may issue the following types of debt under this Policy:

   a. General obligation bonds (GO Bonds)
   b. Bond or grant anticipation notes (BANs)
   c. Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
   d. Revenue bonds and other obligations secured by revenues
   e. Tax and revenue anticipation notes (TRANs)
   f. Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
   g. Refunding loans and other obligations
   h. State Revolving Fund (SRF) Loans
   i. Lines of Credit

   The Council may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Policy. Debt shall be issued as fixed rate debt unless the Council makes a specific determination as to why a variable rate issue would be beneficial to the City in a specific circumstance.

C. Debt Capacity

1. **General Purpose Debt Capacity**. The City will carefully monitor its levels of general-purpose debt. Because the City's general purpose debt capacity is limited, it is important that the City only use general purpose debt financing for high-priority projects where other financing methods cannot reasonably be used for two key reasons:

   A. Funds borrowed for a project today are not available to fund other projects tomorrow.
   B. Funds committed for debt repayment today are not available to fund operations in the future.

   In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation; and no more than 60% of capital improvement outlays will be funded from long-term financings.

2. **Enterprise Fund Debt Capacity.** The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs funded on a pay-as-you-go basis. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

D. Land-Based Financings

1. **Public Purpose.** There will be a clearly articulated public purpose in forming an assessment or special tax district in financing public infrastructure improvements. This should include a finding by the Council as to why this form of financing is preferred over other funding options such as impact fees, reimbursement agreements or direct developer responsibility for the improvements.

2. **Community Facilities District (CFD) 2005-01.** The Reedley Community Facilities District 2005-1 was established to finance operational expenses associated with public safety (police and fire) and park maintenance to single family homes, affordable/multi-family units, commercial or non-residential properties, and vacant land. Under no circumstance shall the City waive annexation requirements into this CFD in order to meet the maximum tax burden guidelines in Section D (#10) of this policy.

3. **Eligible Improvements.** Except as otherwise determined by the Council when proceedings for district formation are commenced, preference in financing public improvements through a special tax district shall be given for those public improvements that help achieve clearly identified community facility and infrastructure goals in accordance with adopted facility and infrastructure plans as set forth in key policy documents such as the General Plan, Specific Plan, Facility or Infrastructure Master Plans, or Capital Improvement Plan.

   Such improvements include study, design, construction and/or acquisition of:

   A. Public safety facilities.
   B. Water supply, distribution and treatment systems.
   C. Waste collection and treatment systems.
   D. Major transportation system improvements, such as: bridges; intersection improvements; construction of new or widened arterial or collector streets (including related landscaping and lighting); sidewalks and other pedestrian paths; transit facilities; and bike paths.
   E. Storm drainage, creek protection and flood protection improvements.
   F. Parks, open space, trails, community centers and other recreational facilities.
   G. Cultural and social service facilities.
   H. Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.

   School facilities will not be financed by community facilities districts, except under appropriate joint community facilities agreements or joint exercise of powers agreements between the City and school districts as required by the applicable law.

4. **Active Role.** Even though land-based financings may be a limited obligation of the City, the City will play an active role in managing the district. This means that the City will select and retain the financing team, including the financial advisor, bond counsel, trustee, appraiser, disclosure counsel, assessment engineer and underwriter. Any costs incurred by the City in retaining these services will generally be the responsibility of the property owners or developer, and will be advanced via a deposit when an application is filed; or will be paid on a contingency fee basis from the proceeds from the bonds.

5. **Credit Quality.** When a developer requests the formation of a district, the City will carefully evaluate the applicant's financial plan and ability to carry the project, including the payment of assessments and special taxes during build- out. This may include detailed background, credit and lender checks, and the preparation of independent appraisal reports and market absorption studies. For districts where one property owner accounts for more than 25% of the annual debt service obligation, a letter of credit further securing the financing may be required.

6. **Reserve Fund.** A reserve fund should be established in the lesser amount of: the maximum annual debt service; 125% of the annual average debt service; or 10% of the bond proceeds.

7. **Value-to-Debt Ratios.** The minimum value- to-date ratio should generally be 4:1. This means the value of the property in the district, with the public improvements, should be at least four times the amount of the assessment or special tax debt. In special circumstances, after conferring and receiving the concurrence of the City's financial advisor and bond counsel that a lower value-to-debt ratio is financially prudent under the circumstances, the City may consider allowing a value-to-debt ratio of 3:1. The Council should make special findings in this case.

8. **Appraisal Methodology.** Determination of value of property in the district shall be based upon the full cash value as shown on the ad valorem assessment roll or upon an appraisal by an independent Member Appraisal Institute (MAI) licensed in the State of California. The definitions, standards and assumptions to be used for appraisals shall be determined by the City on a case-by-case basis, with input from City consultants and district applicants, and by reference to relevant materials and information promulgated by the State of California, including the Appraisal Standards for Land-Secured Financings prepared by the California Debt and Investment Advisory Commission.

9. **Capitalized Interest During Construction.** Decisions to capitalize interest will be made on case-by-case basis, with the intent that if allowed, it should improve the credit quality of the bonds and reduce borrowing costs, benefiting both current and future property owners.

10. **Maximum Burden.** Annual assessments (or special taxes in the case of Mello-Roos or similar districts) should generally not exceed 1% of the sales price of the property; and total property taxes, special assessments and special taxes payments collected on the tax roll should generally not exceed 2%.

11. **Benefit Apportionment.** Assessments will be apportioned according to a formula that is clear, understandable, equitable and reasonably related to the benefit received by - or burden attributed to - each parcel with respect to its financed improvement. Special taxes will be apportioned according to a formula that is reasonable. Any annual escalation factor should generally not exceed 2%. Approval by the Council of a district shall be conclusive evidence that this requirement has been met.

12. **Special Tax District Administration.** In the case of Mello-Roos or similar special tax districts, the total maximum annual tax should generally be structured to ensure it generates at least 110% of annual debt service. The rate and method of apportionment should include a back-up tax in the event of significant changes from the initial development plan, and should include procedures for prepayments.

13. **Foreclosure Covenants.** In managing administrative costs, the City will establish minimum delinquency amounts per owner, and for the district as a whole, on a case-by-case basis before initiating foreclosure proceedings, consistent with the foreclosure covenant set forth in the legal documents governing the bonds secured by the levy, if any.

14. **Disclosure to Bondholders.** In general, unless otherwise recommended by the City's financial advisor and/or underwriter, each property owner who accounts for more than 20% of the annual debt service or bonded indebtedness must provide ongoing disclosure information annually as described under SEC Rule 15c2-12.

E. Conduit Financings

The City will consider requests for conduit financing on a case-by-case basis using the following criteria:

1. The City's bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.

2. There is a clearly articulated public purpose in providing the conduit financing.

3. The applicant is capable of achieving this public purpose.

This means that the review of requests for conduit financing will generally be a two- step process:

1. First asking the Council if they are interested in considering the request, and establishing the ground rules for evaluating it.

2. And then returning with the results of this evaluation, and recommending approval of appropriate financing documents if warranted.

This two-step approach ensures that the issues are clear for both the City and applicant, and that key policy questions are answered.

The work scope necessary to address these issues will vary from request to request, and will have to be determined on a case-by-case basis. Additionally, the City should generally be fully reimbursed for their costs in evaluating the request; however, this should also be determined on a case-by-case basis.

F. Refinancings

General Guidelines. Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within federal tax law constraints) under the following conditions:

1. There is a net economic benefit.

2. It is needed to modernize covenants that are adversely affecting the City's financial position or operations.

3. The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.

Standards for Economic Savings. In general, refinancings for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.

1. Refinancings that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.

2. Refinancings with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective, including to achieve a benefit described above under "General Guidelines".

G. Interfund Transfers and Loans.

General. In order to achieve important public policy goals, the City has established various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures and fund equity.

Any transfers between funds for operating purposes can only be made by the Assistant City Manager, or designee, in accordance with the Adopted Budget. These operating transfers, under which financial resources are transferred from one fund to another, are distinctly different from interfund borrowings, which are usually made for temporary cash flow reasons.

In summary, interfund transfers result in a change in fund equity; interfund borrowings do not, as the intent is to repay in the loan in the near to intermediate term. From time-to-time, interfund borrowings may be appropriate; however, these are subject to the following criteria in ensuring that the fiduciary purpose of the fund is met:

1. Any other interfund borrowings for cash flow or other purposes require case-by-case approval by the Council and documented with a resolution and staff report.

2. The interfund borrowing has a stated interest rate, repayment schedule, and recorded in the City financial system.

3. Reported in the City debt schedule in the Proposed & Adopted budget documents, as well as the City annual financial statements.

Negative Funds. From time to time, the City may have funds that fall into a deficit position due to a variety of factors, including, but not limited to, unanticipated events, revenue shortfalls, higher than expected project expenditures, or timing of grant reimbursements. The Assistant City Manager, in conjunction with applicable Department Heads, shall establish a "work out plan" for specific deficit funds to restore fund equity to a neutral or positive cash position. Depending upon the severity and specific circumstances surrounding the deficit, work out plans may span several years. The cash position of specific City funds shall continue to be communicated to the Council and public on the quarterly investment report.

H. Post-Issuance Internal Control Procedures and Reporting

When issuing debt, in addition to complying with the terms of this Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. Without limiting the foregoing, the City will periodically review the requirements of, and will remain in compliance with, the following:

- Any continuing disclosure undertakings entered into by the City in accordance with SEC Rule 15c2-12.

- Any State law reporting requirements, including requirements to disclose information to the California Debt and Investment Advisory Commission (CDIAC).

- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.

- The City's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the City upon the submission of one or more written requisitions by the City Manager or Assistant City Manager (or a written designee), or (b) by the City, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the City.

The City shall continue to present a schedule of debt in the Proposed & Adopted budget documents.

REEDLEY CITY COUNCIL

- [x] Consent
- [ ] Regular Item
- [ ] Workshop
- [ ] ClosedSession
- [ ] Public Hearing

ITEM NO: 10

DATE: November 12, 2019

TITLE: ADOPT RESOLUTION 2019-100 ESTABLISHING A REVISED CAPITAL FINANCING AND DEBT MANAGEMENT POLICY

SUBMITTED: Paul A. Melikian, Assistant City Manager

APPROVED: Nicole R. Zieba, City Manager

RECOMMENDATION

Staff recommends the City Council adopt of Resolution 2019-100 to establish a revised Capital Financing and Debt Management Policy.

EXECUTIVE SUMMARY

On February 24, 2015, the City Council adopted a Capital Financing and Debt Management Policy, a best practice to establish written guidelines, allowances, and restrictions to guide debt issuance practices, management of a debt portfolio, and adherence to various laws and regulations.

Staff is currently working with bond counsel, attorneys who specialize in public entity bond issuances and debt placement, to possibly refund (refinance) the existing 2011 RDA Bonds, issued February 2011. As part of the due diligence process, bond counsel reviews any pertinent City policies to ensure they are up to date before the transaction is finalized and taken to the market. Bond counsel has reviewed the City's existing Capital Financing and Debt Management Policy and identified some areas that require updating.

The proposed revisions incorporate requirements from SB 1029, which enacted Government Code 8855(i), effective January 1, 2017, which requires certain elements be included in a debt management policy adopted by local agencies in the State. Staff recommends updating the Capital Financing and Debt Management Policy to ensure compliance with those requirements. In addition, the existing disclosure provisions have been strengthened given the enhanced focus on disclosure and transparency since adoption of the current policy. Lastly, the policy is extended to guide the issuance of debt by the City and to other entities the City Council serves as the governing body, including the Successor Agency to the Reedley Redevelopment Agency and the Reedley Public Financing Authority.

BACKGROUND

The purpose of establishing a Capital Financing and Debt Management Policy is to provide guidance for the issuance and ongoing management of City debt obligations, and to maintain the City's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, facilities and equipment beneficial to the City and necessary for essential services. From time to time, the City uses long and short-term debt issuances to finance its capital improvement program based on cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions.

The Government Finance Officers Association recommends that local governments adopt comprehensive written debt management policies that provide Staff, elected officials and the public with guidelines, allowances and restrictions to follow during the debt issuance process, and afterwards for ongoing debt administration and reporting. Many of the financial ratios contained in the policy were developed after reviewing the policies adopted by other cities, and best practices published by the California Debt and Investment Advisory Commission.

FISCAL IMPACT

There is no immediate financial impact of adopting the revised policy. The thresholds, ratios, and analysis called for in the document will help ensure that decisions to issue, refinance and manage debt will be done in an efficient manner and avoid putting the City in a unfavorable financial position, or adherence to regulations. The policy, along with other positive financial factors, will also contribute favorably to its bond (credit) rating.

ATTACHMENTS

Resolution 2019-100 Adopting a Revised Capital Financing and Debt Management Policy
Current Capital Financing and Debt Management Policy with Proposed Revisions