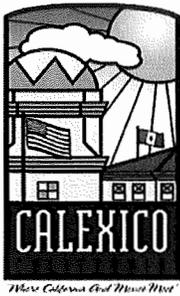


AGENDA  
ITEM

**13**



# Agenda Staff Report

**DATE:** June 6, 2018  
**TO:** Mayor and City Council  
**APPROVED BY:** David Dale, City Manager *DD*  
**PREPARED BY:** Karla E. Lobatos, Finance Director *KL*  
**SUBJECT:** Approve Debt Management Policy

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## Recommendation:

Requesting City Council approval to of City's Debt Management Policy.

## Background:

The purpose of the City's Debt Management Policy is to organize and formalize debt issuance and management related policies and procedures for the City of Calexico. The Policy is subject to and limited by applicable state and federal law provisions and to practical debt management principles.

## Discussion & Analysis:

Government Code requires any issuer of public debt to provide the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue a report of the proposed issuance. As of January 1, 2017, issuers must certify of the Report Debt Issuance that they have adopted local debt policies concerning the use of the debt and that the proposed issuance is consistent with those policies. The issuer's local debt policies must include the purpose for which debt may be used, types of debt issued, relationship of debt to capital improvement, policy goals related to City's planning, and internal control procedures.

## Fiscal Impact:

N/A

## Coordinated with:

N/A

## Attachment:

City of Calexico Debt Management Policy

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# City of Calexico, California

## Debt Management Policy

### Introduction

The purpose of this Debt Management Policy (Debt Policy) is to organize and formalize debt issuance and management related policies and procedures for the City of Calexico, California. The debt policies of the City are subject to and limited by applicable provisions of state and federal law and to prudent debt management principles.

When used in this Policy, “debt” refers to all indebtedness and finance lease and installment purchase obligations.

### Debt Policy Objective

The primary objectives of the City’s debt and financing related activities are to:

- Maintain cost-effective access to the capital markets through prudent fiscal management policies and practices;
- Minimize debt service commitments through effective planning and cash management;
- Ensure the City is in compliance with all applicable federal and state securities laws; and
- Achieve the highest practical credit ratings.

This Debt Policy is intended to comply with all Government Code Section 8855(i), and is applicable to all entities for which the City Council acts as legislative body. The term “City” shall refer to each of such entities.

### Background/Discussion

Government Code section 8855(i) requires any issuer of public debt to provide the California Debt and Investment Advisory Commission (CDIAC) no later than 30 days prior to the sale of any debt issue a report of the proposed issuance. Effective January 1<sup>st</sup>, 2017 issuers must certify of the Report Debt Issuance that they have adopted local debt policies concerning the use of debt and that the proposed issuance is consistent with those policies. The issuer’s local debt policies must include the following:

#### A. Purposed for which Debt may be used

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

- a) 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.
- b) Long-term debt financing will not general be considered appropriate for current operating expenses and routine maintenance expenses.
- c) The City may use long-term debt financing subject to the following conditions:
- The project to be financed must be approved by the City Council.
  - The weighted average maturity of the debt (or portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
  - The City 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 the applicable State and Federal law.

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 projects; for example, the City may undertake lease-purchase financing for equipment.

Financing 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 shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and the issuance of such debt is consistent with the policies set forth herein.

## **B. Types of Debt Issued**

The following types of debt are allowable under this Debt Policy:

- General obligations and revenue bonds
- Lease revenue bonds and lease-purchase transactions
- Certificates of participation

- Bank and direct private placement loans.
- Commercial paper
- Bond or grant anticipation notes
- Tax and revenue anticipation notes
- 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
- Tax increment financing to the extent permitted under state law
- Conduit financing, such as financings for affordable rental housing and qualified 501c3 organizations.

The City may from time to time find that other forms of debt would be beneficial to further its public purposed and may approve such debt without an amendment of this Debt Policy.

Debt shall be issued as fixed rate debt unless the City makes a specific determination as to why a variable rate would be beneficial to the City in a specific circumstance.

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

The City is committed to long-term planning. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

The City shall 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 shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

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.

The City shall seek to avoid the use of debt to fund infrastructure and facilities improvements in the circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment form its general fund.

### **D. Policy goals related to City's 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 intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's annual operations budget.

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 procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy to realize, whenever possible and subject to any overriding non-financial policy considerations (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

#### **E. Internal Control Procedures that the City has implemented or will**

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall 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 undertaking 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 Finance Director or City Manager 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 Finance Director of the City shall retain records of all expenditures of proceeds through the final payment date for the debt.