# Debt Issuance and Management Policy
# City of Hercules

## 1. Introduction

On __________, 2019 the City Council of the City of Hercules ("City Council") reviewed and considered this Debt Issuance and Management Policy ("Debt Policy") of the City of Hercules and this Debt Policy was approved by action of the City Council on __________, 2019. This Debt Policy provides guidelines for debt issuance, management and post-issuance related policies and procedures for the City. This Debt Policy may be amended by the City Council as it deems appropriate from time-to-time in the prudent management of the debt and financing needs of the City of Hercules.

## 2. Purpose

The purpose of this Debt Policy is to establish guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the City of Hercules and its related entities (such as, but not exclusive to, the City-formed Community Facilities Districts, Assessment Districts, and any entities for which the City Council serves as the governing board or legislative body). This Debt Policy is intended to improve and direct decision making, assist with the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including the City of Hercules five-year Capital Improvement Program (the "Capital Improvement Program"). Adherence to a debt policy helps to ensure the City of Hercules' debt is issued and managed prudently in order to maintain a sound financial position and credit worthiness. When used in this Debt Policy, "debt" refers to all indebtedness and financing obligations of the City of Hercules and its related entities (together referred to as "City").

## 3. Debt Policy Objective

This Debt Policy is intended to comply with the requirements of Senate Bill 1029 (SB 1029), codified as part of California Government Code Section 8855(i), effective on January 1, 2017 and shall govern all debt undertaken by the City. The primary objectives of the City's debt and financing related activities are to:

A. Maintain the City's sound financial position;

B. Ensure the City has the flexibility to respond to possible changes in future service obligations, revenues, and operating expenses;

C. Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City;

D. Minimize debt service commitments through efficient planning and cash management;

E. Protect the City's credit worthiness and achieve the highest practical credit ratings, when applicable; and

F. Ensure the City is in compliance with all relevant State and Federal securities laws and other applicable laws and regulations.

## 4. Acceptable Uses of Debt Proceeds

The City will consider the use of debt financing primarily for assets and capital projects only if the term of debt shall not exceed the asset(s) or project's useful life or will otherwise comply with Federal tax law requirements. An exception to this long-term driven focus is the issuance of short-term instruments, such as tax and revenue anticipation notes, which are to be used for reasonable cash management purposes, as described below. With a few exceptions, bonded debt should not be issued to finance normal operating expenses. General Fund debt will not be issued to support ongoing operational costs unless such debt issuance achieves net operating cost savings and such savings are verified by independent analysis.

A. *Long-Term Debt*.

i. 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/or operated by the City. Long-term debt financings are appropriate when any of the following conditions exist:

(1) When the project to be financed is necessary to provide basic municipal services;

(2) When the project to be financed will provide benefit to the City's constituents over a duration of more than one year;

(3) When the total debt financing would not impose an unreasonable burden on the City and its taxpayers and/or ratepayers, as applicable; or

(4) When the debt is used to refinance outstanding debt in order to produce debt service savings or to benefit from debt restructuring.

ii. The City may use long-term debt financings subject to each of the following conditions:

(1) The project to be financed has been or will be considered and approved by the City Council;

(2) The weighted average 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 by more than 20%;

(3) The City estimates that sufficient revenues will be available to service the debt through its maturity; and

(4) The City determines that the issuance of the debt will comply with the applicable requirements of State and Federal law.

B. *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 the City's short-lived capital projects, such as undertaking lease-purchase financing for equipment.

C. *Financings on Behalf of Other Entities*. The City may also 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, the financial solvency of any borrower, and that the issuance of such debt is consistent with the policies set forth herein. In such cases, the City may charge reasonable issuance fees payable from bond proceeds and ongoing administrative fees payable by the third party obligor.

D. *Miscellaneous*. Debt proceeds may be used to pay the premiums for bond insurance and/or debt service reserve insurance policies, fund reserve accounts, and pay costs of issuance, including reasonable reimbursement for costs incurred by the City in connection with the issuance of the debt.

## 5. Standards for Use of Debt Financing

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, costs, and risks. The City will consider debt issuance only in those cases where public policy, equity and economic efficiency favor debt financing over cash funding. Prior to the issuance of debt or other financing obligations, the City will carefully consider the overall long-term affordability of the proposed debt issuance by conducting an objective analysis of the City's ability to support additional debt service payments. The City will consider its long-term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on the taxpayers/ratepayers. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and/or maintain debt levels consistent with its current operating and capital needs.

## 6. Types of Debt

In order to maximize the financial options available to benefit the public, it is the City's policy to allow the consideration of issuing all generally accepted types of debt, including, but not exclusively, to the following:

A. *Revenue Bonds/Certificates of Participation (COPs)/Leases/Installment Sale Agreements*. Revenue Bonds, COPs, financing leases and Installment Sale Agreements are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. Generally, no voter approval is required to issue this type of obligation but in some cases, the City must comply with proposition 218 regarding rate adjustments.

B. *Joint Powers Authority (JPA) Lease Revenue Bonds*. As an alternative to COPs, the City may obtain financing through the issuance of debt by a joint exercise of powers agency with such debt payable from amounts paid by the City under a lease, installment sale agreement, or contract of indebtedness.

C. *General Obligation (GO) Bonds*. GO Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. The California Government Code, Division 4, Chapter 4, Article 1 commencing with section 43600 authorizes cities to finance certain municipal improvements through GO bonds when a city determines the public interest and necessity demands the acquisition, construction or completion of such municipal improvements, including property or structures necessary or convenient to carry out the objects, purposes, and powers of a city. Examples of projects include but are not limited to libraries, parks, and public safety facilities. All GO bonds shall be authorized by the requisite number of voters in order to pass.

D. *Loans*. The City is authorized to enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source or sources of repayment.

E. *Special Assessment/Special Tax Debt*. The City will consider requests from developers for the use of debt financing secured by property-based assessments or special taxes in order to provide for necessary infrastructure for new development under guidelines adopted by City Council, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (ADs) and Community Facilities Districts (CFDs), also known as Mello-Roos Districts. In order to protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the issuance of special tax or special assessment debt.

F. *Tax Allocation Bonds*. Tax Allocation Bonds are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes in the designated (now former) redevelopment project areas. Tax Allocation Bonds are not debt of the City. California Health and Safety Code, Division 24, Parts 1.8 and 1.85 limit the authority to issuance of tax allocation bonds only as to refunding of bonds properly and timely issued prior to January 1, 2011; such laws are referred to as the "Dissolution Law" and govern successor agencies to now dissolved redevelopment agencies.

G. *Short-Term Debt*. Short-term borrowing, such as commercial paper, Tax and Revenue Anticipation Notes (TRANS), and lines of credit, may be considered as an interim source of funding in anticipation of long-term borrowing and may be issued to generate funding for cash flow needs. The final maturity of the debt issued to finance the project shall be consistent with the useful life of the project. Short-term debt may also be used to finance short-lived capital projects such as lease-purchase financing for equipment.

H. *Refunding Bonds and other types of Refunding Debt*. The City shall refinance debt pursuant to the authorization that is provided under California law, including but not limited to Articles 9, 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, as market opportunities arise. Refundings may be undertaken in order:

(1) To take advantage of lower interest rates and achieve debt service costs savings;

(2) To eliminate restrictive or burdensome bond covenants; or

(3) To restructure debt to lengthen the duration of repayment, relieve debt service spikes, reduce volatility in interest rates or free up reserve funds.

Generally, the City shall strive to achieve a minimum of 3% net present value savings. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Refundings which produce a net present value savings of less than 3% will be considered on a case-by-case basis. Upon the advice of the City Manager or the Finance Director and with the assistance of a financial advisor and bond counsel, the City will consider undertaking refundings for other than economic purposes based upon a finding that such a restructuring is in the City's overall best financial interest.

The City 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 Debt Policy.

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

## 7. Relationship to Capital Improvement Program and Operating Budget

The City intends to issue debt for the purposes stated in this Debt Policy and the decision to incur new indebtedness should be integrated with the City Council-adopted annual Operating Budget and Capital Improvement Program Budget. Prior to issuance of debt, a reliable revenue source shall be identified to secure repayment of the debt and the annual debt service payments shall be included in the Operating Budget.

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.

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

This Debt Policy has been adopted to assist with the City's goal of financial sustainability and financial prudence. In following this Debt Policy, the City shall pursue the following policy goals:

i. The City is committed to 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 Debt Policy and to implement policy decisions incorporated in the City's annual Operating Budget;

ii. 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;

iii. It is a policy goal of the City to reduce the unfunded liabilities for employee pension and other post-employment benefits (OPEB);

iv. 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; and

v. When refinancing debt, it shall be the policy goal of the City to achieve, whenever possible and subject to any overriding non-financial policy, minimum aggregate net present value debt service savings of at least 3% of the refunded principal amount.

## 9. Internal Control Procedures

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:

i. Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12;

ii. Any federal tax compliance requirements including without limitation arbitrage and rebate compliance, related to any prior bond issues;

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

iv. Government Code section 8855(k) and the annual reporting requirements therein.

The City shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued. The City Manager, the Finance Director or designee will monitor the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued. 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 or the Finance Director.

## 10. Conflicts of Interest.

The City and its appointed and elected officials, officers, employees, contractors, and consultants shall comply with the City's Conflicts of Interest Code and all applicable state and federal laws relating to conflicts of interest, including without limitation the Political Reform Act of 1974, the regulations of the Fair Political Practices Commission promulgated thereunder (Title 2, Division 6 (commencing with Section 18109) of the California Code of Regulations, and Government Code Section 1090, et seq.

## 11. Amendment and Waivers of Debt Policy

This Debt Policy will be reviewed and updated periodically as needed. Any amendments to this Debt Policy are subject to specific City Council approval.

While adherence to this Debt Policy is required in all applicable circumstances, on rare occasions there might be circumstances when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the City. If the City staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the City Council, it will prepare an analysis for the City Council describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on taxpayers, if applicable. Upon a majority vote of the City Council, one or more provisions of this Debt Policy may be waived for a debt financing.

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the City in accordance with applicable laws.

## 12. SB 1029 Compliance

SB 1029, signed by Governor Brown on September 12, 2016, and enacted as Chapter 307, Statutes of 2016, requires issuers to adopt debt policies addressing each of the five items below:

A. *The purposes for which the debt proceeds may be used*. Section 4 (Acceptable Uses of Debt Proceeds) addresses the purposes for which debt proceeds may be used.

B. *The types of debt that may be issued*. Section 6 (Types of Debt) provides information regarding the types of debt that may be issued.

C. *The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable*. Section 7 (Relationship to Capital Improvement Program and Operating Budget) provides information regarding the relationship between the City's debt and Capital Improvement Program and annual Operating Budget.

D. *Policy goals related to the issuer's planning goals and objectives*. Section 3 (Debt Policy Objective) and Section 8 (Policy Goals Related to Planning Goals and Objectives) address some of the City's policy goals and how this Debt Policy has implemented them.

E. *The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use*. Section 9 (Internal Control Procedures) provides information regarding the City's internal control procedures designed to ensure that the proceeds of its debt issues are spent as intended.

This Debt Policy, as written, complies with and meets the requirements of SB 1029.