City of Murrieta City Council Policy	
POLICY: **DEBT POLICY**	
POLICY NO.: 400-03	DATE: December 6, 2016

PURPOSE

The Debt Policy establishes guidelines for issuing, administering, and managing debt. The City issues debt to finance or refinance infrastructure and various capital project needs. The debt policy provides guidance to the City Council and staff to ensure that the debt is issued, administered, and managed in compliance with State and Federal laws and regulations. The policy also documents the overall goal and objectives of the City to protect credit quality and maintain a sound financial position.

POLICY

This Debt Policy will serve as the policy for each of the governmental entities for which the City Council sits as the governing board or legislative body.

SHORT-TERM OPERATING DEBT

The expenses associated with the day-to-day operations of the City will be covered by current revenues. However, because the City receives the majority of its property tax revenues at two (2) times during the year and sales tax revenues may fluctuate during the year, the City may experience temporary cash shortfalls. In order to finance these temporary cash shortfalls, the City may incur short-term operating debt [typically, tax and revenue anticipation notes (TRANS)]. The amount of the short-term operating debt will be based on cash flow projections for the fiscal year and will comply with applicable federal and state regulations. Operating revenues will be pledged to repay the debt, which will generally be repaid in one year or less. The costs of such borrowings will be minimized to the greatest extent possible.

LONG-TERM CAPITAL DEBT POLICY

The long-term capital debt policy sets the parameters for issuing debt and provides guidance in the timing and structuring of long-term debt commitments. In addition to this policy, a separate policy will be developed for land-based financings (typically, local improvement or community facilities districts) and debt issued by the redevelopment successor agency. The City will consider the issuance of long-term obligations under the following conditions:

1. The City will use debt financing only for one-time capital improvement projects and unusual equipment purchases, and only under the following circumstances:

a. When the project is included in the City's five-year capital improvement program and is in conformance with the City's general plan.

b. When the project is not included in the City's five-year capital improvement program, but it is an emerging critical need whose timing was not anticipated in the five-year capital improvement program, or it is a project mandated immediately by state or federal requirements.

c. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.

d. When there are predictable, designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

e. Debt financing (other than tax and revenue anticipation notes) is not, in the majority of cases, considered appropriate for any recurring purpose such as current operating and maintenance expenditures.

2. The project priority process used in developing the City's five-year capital improvement program, including criteria used in evaluating projects and project viability, will be reviewed by the City Council as part of the annual update of the five-year capital improvement program.

3. The following criteria will be used to evaluate pay-as-you-go versus long-term debt financing in funding capital improvements:

a. Factors which favor pay-as-you-go:

(1) Current revenues and adequate fund balances are available.
(2) Project phasing is feasible.
(3) Debt levels could adversely affect the City's credit rating.
(4) Market conditions are unstable or present difficulties in marketing long-term debt.

b. Factors which favor long-term financing:

(1) Revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating, if applicable.
(2) The project for which financing is being considered is of the type that will allow the City to maintain an appropriate credit rating.
(3) Market conditions present favorable interest rates and demand for municipal financings.
(4) A project is mandated by State or federal requirements and current revenues and fund balances are insufficient to pay project costs.
(5) A project is required to meet or relieve capacity needs.
(6) The life of the project or asset financed is five years or longer.

4. The following will be considered in evaluating appropriate debt levels:

   a. General fund supported debt service will not exceed 8% of total budgeted expenditures and transfers out.

   b. The general fund may be used to provide back-up liquidity to improve the viability of a self-supported debt issue (i.e., ***not*** land-based or redevelopment successor agency financings), but only if the general fund is not exposed to significant risk of loss of assets or impairment of liquidity. This evaluation of risk will consider such things as the following:

      (1) Volatility and dependability of the revenue source identified for repayment of the debt.

      (2) The likelihood the general fund would be reimbursed within one year for any payments it might potentially need to make in its role as back-up guarantor.

   If the City Council determines the risk of loss of assets or impairment of liquidity to the general fund to be relatively minimal, self-supported debt service for debt that relies on the general fund as a back-up guarantor will not exceed 8% of general fund budgeted expenditures and transfers out.

5. The costs of developing and maintaining a land-based long-term debt policy will be borne to the maximum extent possible by the development community which uses this type of financing.

6. The City will follow all state and federal regulations and requirements regarding bond provisions, issuance, taxation and disclosure.

7. The adoption of resolutions of intent will be considered whenever bond issuance is contemplated to finance various types of private activities, i.e. multifamily housing, single family housing, industrial development bonds, etc.

8. Costs incurred by the City, such as bond counsel and financial advisor fees, printing, underwriters' discount, and project design and construction costs, will be charged to the bond issue, when feasible, to the extent allowable by law.

9. The City will seek credit enhancements, such as letters of credit or insurance, when necessary for cost-effectiveness.

10. The City will seek to maintain its current bond rating and will ordinarily not consider long-term debt that, through its issuance, would cause the City's bond rating to be lowered.

11. The City will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus (Official Statement).

12. The City will generally conduct financings on a negotiated basis; however, competitive financings may be used when applicable.

13. The City will select a financial advisor and/or investment banker on a competitive basis; these advisors will be retained for at least five years to provide continuity and allow them to develop an understanding of the City's needs. Trustees and/or paying agents will be selected by competitive bid.

14. Interfund borrowing will be considered to finance high priority needs on a case-by-case basis, only when planned expenditures in the fund making the loan would not be affected. Interfund borrowing may be used when it would reduce costs of interest, debt issuance, and/or administration.

15. The term of the long-term debt instrument will not exceed the legal life of the asset or thirty years, whichever is less.

16. In choosing the appropriate long-term debt instrument, cost, economic equity, political acceptability, and flexibility will be considered. Refundings will be considered to reduce interest costs or principal outstanding, or to eliminate restrictive debt covenants, if applicable. Pooled financings with other government agencies will be considered, as appropriate.

DEBT ADMINISTRATION & REGULARTORY COMPLIANCE

The City will maintain written policies and procedures outlining required actions to ensure compliance with local, state, federal regulations, and bond offering documents. Such procedures will specifically address continuing disclosure, arbitrage rebate, private use limitations, other tax compliance requirements, permitted investments of bond proceeds, and appropriate usage of bond proceeds.

1. City will adhere to its Continuing Disclosure obligations described in outstanding continuing disclosing agreements and certificates relating to publicly-offered and/or privately placed debt

2. The City is responsible of maintain compliance with all applicable arbitrage rebate requirements.

    a. The City will keep all records and documents to meet the arbitrage compliance requirements of federal tax law for tax-exempt debt.

    b. The City will make payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the bonds, and no later than 60 days after the last bond of each issue is redeemed.

c. During the construction period of each capital project financed in whole or in part by bond proceeds, monitoring the investment and expenditure of proceeds and consult with rebate experts as necessary to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 24- months, as applicable, following the issue date of the bonds.

3. The City is responsible for monitoring the use of tax-exempt proceeds and the use of tax-exempt financed assets throughout the term of the debt to ensure compliance with all covenants and restrictions.

    a. The City will consult with the City Attorney's Office and bond counsel in the review of any contracts or arrangements involving use of tax-exempt financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the bond offering documents relating to the tax-exempt debt.

    b. The City will maintain records for any contracts or arrangements involving the use of tax-exempt financed assets.

    c. Where applicable, bond proceeds of debt issued to finance capital improvements will be held by a third-party trustee. Disbursements of bond proceeds by the trustee will be executed only by the trustee's receipt of written requisitions executed by Authorized Representatives of the City on file with the trustee.

    d. To the extent that the City discovers that any applicable tax restrictions regarding use of tax-exempt proceeds and tax-exempt financed assets will or may be violated, the City will promptly consult with the City Attorney's Office and bond counsel to develop a course of action to remediate any identified violation.

    e. Bond proceeds will be invested in accordance with the provisions of the bond indenture. All investments of bond proceeds will adhere to the City's Investment Policy, approved annually by the City Council, federal tax requirements, and with the requirements contained in the bond documents. Investments will not allow security types or credit standards less than those of the City's Investment Policy.

4. The City will comply with all California Debt and Investment Advisory Commission (CDIAC) filing requirements including those related to the Disclosure Policies and Procedures and Annual Debt Report.

    a. The City will prepare an Annual Debt Report for submission to the City Council in compliance with the CDIAC guidelines. This report will contain a summary of the City's current credit rating(s), outstanding and newly issued debt, a breakdown of anticipated debt-funded capital improvements, refunding opportunities and an outline of any proposed changes to this Debt Management Policy. This report may be in the form of a schedule within the annual Budget, Comprehensive Annual Finance Report, or other interim financial report or as a separate City Council informational item.

WAIVERS OF DEBT POLICY

There will be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the City.

1. 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.

2. Upon a majority vote of the City Council, one or more provisions of this Debt Policy may be waived for a debt financing.

3. 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.

APPENDIX

There are many different types of long-term debt instruments available. Depending on the specific circumstances, the City will consider using the following types of financing instruments:

General Obligation Bonds - Bonds backed by the full faith and credit of the City. The taxing power may be an unlimited ad valorem tax or a limited tax, usually on real estate and personal property. A special rate is incorporated in the property tax bill annually to pay for debt service. A two-thirds voter approval is required for authorization. Because it is secured by an unlimited tax levy, this structure has strong marketability and lower interest costs.

Revenue Bonds - Bonds are secured by revenues generated by the facility that is financed or by dedicated user fees. Voter approval may or may not be required. Planning is more complex because costs and revenues affect each other. Credit enhancement (e.g., insurance or letter of credit) may be needed because of the limited source of debt service payment.

Certificates of Participation - The City enters into a lease agreement with another party (a lessor, such as a joint powers authority) to lease an asset over a defined period of time at a prearranged annual payment. Voter approval is generally not required. Lease payments are made primarily from general fund revenues. Current law requires the lessee to make lease payments only if the facility has beneficial use. The legislative body has to appropriate annual debt service payments. For the security of the bondholders, a reserve fund is normally established and held by a trustee until all bonds are paid.

Interest during project construction must be capitalized. An "asset transfer" structure, whereby an existing facility is used as security to finance construction or acquisition of another project, may be used for flexibility.

Tax Allocation Bonds - Bonds are secured by property tax increment (property taxes generated on assessed value in excess of the frozen property tax base) in a redevelopment project area. These bonds are issued to promote economic development. Voter approval is not required.

Assessment Bonds - Bonds are issued to develop facilities and basic infrastructure for the benefit of properties within the assessment district. Assessments are levied on properties benefited by the project. Voter approval is not required. Instead, a majority vote of the property owners with a majority of assessments is needed to authorize the issue. The issuer's recourse for nonpayment is foreclosure. This type of bond is normally not rated. The bonds may be issued under the provisions of the 1911, 1915 or Mello-Roos Bond Act, whichever is most appropriate.

Master Lease Agreements - The City enters into a lease agreement with a provider to lease equipment or facilities whose useful life is too short to finance with long-term debt. Various pieces and types of real and personal property from different vendors over a period of time can be acquired under one master lease agreement. Interest can be fixed or tied to an index. Financing costs are normally minimal, but the interest cost may be higher than with other instruments.

Vendor-Financed Leases - A vendor of equipment acts as the lessor and investor, and holds the lease for its full term or may assign the lease. The motivating factor to the vendor is usually to encourage future sales of its product.

Marks-Roos Bonds - Bonds are issued by a joint powers authority to buy other bond issues. By pooling bond issues, marketability can be improved and administration costs are reduced.

Bond Anticipation Notes - Notes are issued to provide temporary financing, to be repaid by long-term financing. This ‘bridge financing’ has a maximum maturity of three years.

HISTORY
Original - Adopted December 3, 2002
Amended - December 6, 2016

Rick Gibbs
Mayor