

**CITY OF EL CAJON  
CITY COUNCIL POLICY**

SUBJECT:		POLICY #
<b>DEBT MANAGEMENT</b>		<b>B-15</b>
REFERENCE:	EFFECTIVE	PAGE
California Government Code Section 8855, Resolution No. 101-17	<b>11/14/2017</b>	<b>1 of 8</b>

**PURPOSE:**

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the City or its related entities and is intended to comply with section 8855(i) of the California Government Code effective on January 1, 2017. The main objectives are to establish conditions for the use of debt; to ensure that debt capacity and affordability are adequately considered; to minimize the City's interest and issuance costs; to maintain the highest possible credit rating; to provide complete financial disclosure and reporting; to maintain financial flexibility for the City; and ensure adequate training for decision makers and staff involved in debt management functions.

**BACKGROUND:**

This Debt Management Policy (the "Debt Policy") of the CITY OF EL CAJON (the "City") was approved by the City Council of the City (the "Council") on November 14, 2017. The Debt Policy may be amended by Council as it deems appropriate from time to time in the prudent management of the debt of the City.

This Debt Policy will also apply to any debt issued by the El Cajon Public Financing Authority, El Cajon Housing Authority, Successor Agency to the former El Cajon Redevelopment Agency, and any other public agency for which the Council acts as its legislative body.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the City's effort to allocate limited resources to provide the highest quality of service to the public. The City understands that poor debt management can have ripple effects that hurt other areas of the City. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the City for its residents and businesses.

**1. Findings**

This Debt Policy shall govern all debt undertaken by the City. The City hereby recognizes that a fiscally prudent debt policy is required in order 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 in order to protect both current and future taxpayers, ratepayers and constituents of the City.

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- Ensure that the City’s debt is consistent with the City’s planning goals and objectives and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

**POLICY:**

**2. Policies**

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

The City will consider the use of debt financing primarily for capital improvement projects (CIP) when the project’s useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this CIP driven focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below. Bonded debt should not be issued for projects with minimal public benefit or support, or to finance normal operating expenses.

If a department has any proposed project which is expected to use debt financing, the department director is responsible for expeditiously providing the City Manager and the Finance Director with reasonable cost estimates, including specific revenue sources, that will provide payment for the debt service. This will allow an analysis of the project’s potential impact on the City’s debt capacity and limitations. The department director shall also provide an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue, if any, to pay for such incremental costs.

(i) Long-Term Debt. Long-term debt may be issued to finance or refinance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or 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

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debt service savings or to realize the benefits of a debt restructuring.

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

- (c) The City may use long-term debt financings subject to the following conditions:
- The project to be financed has been or will be approved by the Council.
  - 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, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the City to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
  - The City estimates that sufficient income or 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 requirements of state and federal law.
  - The City considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources

(d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

(ii) Short-term debt. Short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN).

Short-term borrowing will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project, unless the Council determines that extraordinary circumstances exist.

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Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment, and such equipment leases may be longer than seven (7) years.

(iii) 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 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 that the issuance of such debt is consistent with the policies set forth herein. In no event will the City incur any liability or assume responsibility for payment of debt service on such debt. Further, the City shall be reimbursed for all of its administrative costs and expenses, including fees of its legal counsel, incurred in serving as the issuer for another governmental agency or a private third party.

**B. Types of Debt**

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

- General Obligation (GO) Bonds: General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. Examples of projects include libraries, parks, and public safety facilities. All GO bonds shall be authorized by the requisite number of voters in order to pass.
- Revenue Bonds: Revenue Bonds are limited-liability obligations tied to a specific revenue stream where the projects financed clearly benefit or relate to the activity or are otherwise permissible uses of the revenue. An example of projects that would be financed by a Revenue Bond would be improvements to a waste water system, which would be paid back with money raised from the rates and charges to waste water users. 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.
- Lease-Backed Debt/Certificates of Participation (COP/Lease Revenue Bonds): Issuance of Lease-backed debt is a commonly used form of debt that allows a City to finance projects where the debt service is secured via a lease agreement and where the payments are budgeted in the annual budget

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appropriation by the City from the general fund. Lease-Backed debt does not constitute indebtedness under the state or the City's constitutional debt limit and does not require voter approval.

- Special Assessment/Special District 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 only under strict guidelines adopted by the Council, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (AD) and Community Facilities Districts (CFD) or more commonly 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 district or special assessment debt, as well as any policy required to be adopted under Government Code Section 53312.7.

To maintain a predictable debt service burden, the City will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of securities. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose. The maximum amount of variable-rate debt should be limited to no more than 20 percent of the total debt portfolio.

The City will not employ derivatives, such as interest rate swaps, in its debt program. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk and thereby reducing borrowing costs. However, these products bear certain risks not associated with standard debt instruments.

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

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

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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, unless a specific revenue source has been identified for this purpose, such as Gas Tax funds.

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 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 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.

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.

**E. Debt Limits**

(i) Legal Restrictions. The City will ensure that any proposed debt issuance is consistent with Federal and State law, El Cajon City Charter, El Cajon Municipal Code, City policies and procedures, and any contractual obligations of the City.

(ii) Financial Restrictions. All proposed debt will be evaluated using long term projection and forecasting of resources, as well as other debt coverage analysis

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including the use of financial ratios. Debt supported by the General Fund will not exceed 5% of total budgeted General Fund expenditures and other sources. When evaluating proposed General Fund supported debt, a debt capacity analysis will be performed considering all obligations including postretirement benefit liabilities.

**F. Post Issuance Compliance and Administration**

The City will ensure that appropriate attention and resources are assigned to the following post issuance responsibilities:

- Compliance with Federal and State reporting requirements
- Appropriate investment of bond proceeds
- Ensure arbitrage compliance
- Ensure compliance with bond covenants

**G. Training and Education**

The City will ensure that decision makers and staff involved with debt issuance and post issuance administration are adequately trained and educated in order to fully understand their debt management responsibilities.

**H. 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:

- 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

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submit a requisition only after obtaining the signature of the City Manager or the Finance Director.

**I. Waivers of Debt Policy**

There may be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or in the best interests of the City and 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. Any waiver of this Debt Policy must be approved by the City Council.