

CITY OF RIALTO

AGENDA REPORT

For City Council Meeting of November 1, 2005

TO: Honorable Mayor and Council Members
 APPROVAL: Henry T. Garcia, City Administrator
 FROM: June Overholt, Chief Financial Officer *JO*
 SUBJECT: Approve a Fiscal Policy for New Development and Annexations
 DATE: October 11, 2005

BACKGROUND:

As the City of Rialto grows, the need for City services also increases. To address this growth, a new strategic approach to address the fiscal impact of annexations or new development in the City is needed.

Traditionally, industrial and commercial development contributes adequately for their impact on City services through sales tax generated, business licenses and property tax revenues. Housing developments, however, have a greater demand for City services (law enforcement, fire and paramedic services) than industrial and commercial developments. The City of Rialto is a bedroom community, which means that sales tax revenue tends to leak out of Rialto into neighboring communities that have more retail options. The other major revenue source the City relies on to pay for services is property taxes, which in Rialto represents only 8% of General Fund revenues. Only \$.14 on the dollar of property tax paid comes to the City to pay for vital services.

Since 1998, the population has grown by over 12,000. In the midst of this growth, the City faced a financial crisis requiring the lay off or elimination of approximately 33 positions. This resulted in reduced police services, reduced maintenance staff and the periodic closure of Fire Station 204. Reality was that even though staffing levels dropped, demands for service continued to increase.

To illustrate the disparity that exists in the city between population growth and number of City employees, see the graph below.

Year	1998	1999	2000	2003	2004	2006
# of employees	396	413	380	364	392	409
Population	88,000	89,700	91,600	97,060	98,100	100,000
# of employees per 1000 population	4.50	4.60	4.10	3.75	3.97	4.09

In June 2003, with the passing of the Utility Users Tax (UUT), the City received a new revenue source that allowed for an increase in staffing levels to address the demands for service. Even with the UUT, staffing levels have not returned to the levels existing before the financial crisis in 1999/2000.

Growth from new development and annexations is inevitable. The City must proactively manage growth in a fiscally responsible manner. To do this, every proposal for development and/or annexation should be evaluated individually for fiscal impact to the City. The cost of capital improvements and general fund services must be compared to the proposed area's revenue, which come in the form of Development Impact Fees, utility users tax, property tax, sales tax, and business license fees. In the event that the analysis shows a deficit, the City must evaluate and consider whether to absorb these costs (deficit) or use alternate financing methods.

Because Rialto is strategically positioned for economic development and housing development, staff is recommending that Council adopt a policy that provides broad guidelines for addressing the fiscal needs of the City to meet the growing service level demands of each new development or annexation.

ANALYSIS/DISCUSSION:

It is the City's goal to support development and annexations that are consistent with the overall goals and policies of the General Plan and do not adversely impact the City's fiscal viability, environmental resources, infrastructure and services, and quality of life. The policy seeks to acknowledge that new development or annexations should provide sufficient revenues to pay for the increased cost of services and infrastructure. As such, staff will utilize the policy for evaluating the fiscal impact of new development and annexations and the funding options available to cover the increased costs.

Funding for the costs identified in the fiscal impact would be negotiated with the involved parties, developers or the County. Financing options for the developers would include but would not be limited to Community Facility Districts (CFD) or 1915 Act Assessment Districts (AD). If applicable, staff will evaluate the viability of a city wide CFD for all new housing development within as yet to be defined parameters. Final recommendations would be made to Council for adoption where required by law or where negotiations did not provide a solution to meet any fiscal impact deficits.

The proposed policy has two main parts. The first part mandates that a complete fiscal analysis should be completed to identify the fiscal impacts for every new development and/or annexation to the City. The structure of any alternate financing methods would be based on information identified in the analysis.

The second part addresses the specific CFD goals and policies required by State law. Since the structure of every district will be specific to the type and amount of development within the district, it is important to have minimum standards included in the CFD and AD financing policy. Some of the minimum standards included in the proposed policy relate to the following:

- Process of formation;

- Type of facilities to be financed;
- Type of services to be financed;
- Value to lien requirements;
- Special tax inflators and escalators;
- Special tax coverage requirements;
- Calculation of administration expenses;
- Prepayment clauses and formulas;
- Direct and overlapping debt allowable level (Percentage of Assessed Value);
- Fiscal impact study requirements.

In the State of California, public agencies often utilize Community Facility Districts, "Mello-Roos" (CFDs) and 1915 Act Assessment Districts (ADs) to finance certain public improvements and public services. The City of Rialto has used both of these types of districts in the past to finance public improvements and services, i.e. CFD's 87-1, 87-2 and AD 1-87. CFD 87-2, which is not currently being levied in lieu of the Utility Users Tax, was established to offset the impact of the cost of police and fire services needed within the boundaries of the district.

CFDs will play a very important role in the future to keep all new development balanced in terms of costs of City services. Legislation has been adopted since the formation of the City's current districts that requires a formal CFD financing policy prior to the formation of any new districts. California Government code section 53312.7 reads as follows:

"On and after January 1, 1994, a local agency may initiate proceedings to establish a district pursuant to the [Mello-Roos Community Facilities Act of 1982] only if it has first considered and adopted local goals and policies concerning the use of this chapter.

With the assistance of Fulbright and Jaworski L.L.P., staff has drafted a policy that addresses the issues described in this report. The policy outlines minimum standards that every district must possess at formation. (Exhibit A)

The conceptual framework of the need for this policy was presented to the Economic Development Committee on September 28th, 2005. The committee directed staff to prepare a policy for Council adoption as quickly as possible in light of specific requests that have been made to the City for annexations and establishing a CFD.

ENVIRONMENTAL IMPACT:

None


LEGAL REVIEW:

The staff report and policy have been reviewed and approved by the City Attorney.

City Attorney

FINANCIAL IMPACT:

There is no measurable fiscal impact involved in the adoption of the fiscal impact policy.


Chief Financial Officer

RECOMMENDATION:

Request City Council to adopt the Fiscal Policy for New Development and Annexations, which includes the Community Facilities District (Mello-Roos) and Assessment District (1915 Act) goals and policies.

Attachments:

- Fiscal Policy for new Development and Annexations

Report prepared by George Harris, Senior Administrative Analyst

Exhibit A

City of Rialto



Fiscal Policy for New Development and Annexations

FISCAL POLICY FOR NEW DEVELOPMENT AND ANNEXATIONS

The City of Rialto (the "City") has established the following policies to address the fiscal viability of new development and annexations within the City.

It is the City's goal to support development and annexations that are consistent with the overall goals and policies of the General Plan and do not adversely impact the City's fiscal viability, environmental resources, infrastructure and services, and quality of life.

The City staff, including Development Services and Finance staff, will collaborate to adhere to and implement these goals and policies. Recommendations resulting from implementing these goals and policies will be presented to the appropriate committees and Council through a team approach.

Any and all exceptions to these policies are subject to the review by the Economic Development Committee and approval by City Council.

SECTION 1 – ANNEXATION GOALS AND POLICIES

- I. Ensure that City interests are protected in all annexation processes with LAFCO.
- II. Prepare or request any reports, information or feasibility studies reasonably necessary in evaluating annexation requests.
- III. Coordinate with the County of San Bernardino, landowners, and pertinent service agencies to assure that development within the sphere of influence (SOI) complements, does not adversely compete with, and assures the fiscal viability of the City of Rialto.
- IV. Ensure that annexations to the City of Rialto are consistent with the overall goals and policies of the General Plan and do not adversely impact the City's fiscal viability, environmental resources, infrastructure, services, and quality of life.
- V. Require that existing and proposed development within proposed annexations areas generate sufficient revenues, to compensate the City for its fair-share of community service costs.
- VI. Require that infrastructure and service improvements for proposed annexation areas do not create an undue burden on existing City infrastructure and services.
- VII. Encourage that, if an area annexes to the City, a Community Facilities District (CFD) or other financing option be established for the provision and maintenance of streets, and other public services.
- VIII. Specifically, require that all annexation areas include the costs of any landscaped arterial and median installation into the fiscal impact analysis. Also, that all new development install any and all arterial and open space landscaping. Require that both annexed areas and new development annex into Landscaping and Lighting Maintenance District No. 2, or any other appropriate financing district.

SECTION 2 – NEW DEVELOPMENT GOALS AND POLICIES

For the purposes of this policy new development is defined as development of vacant or raw land that exists within the current boundaries of the City of Rialto.

- I. Prepare or request any reports, information or feasibility studies reasonably necessary in evaluating the development requests.
- II. Ensure that new development in the City of Rialto are consistent with the overall goals and policies of the General Plan and do not adversely impact the City's fiscal viability, environmental resources, infrastructure, services, and quality of life.
- III. Require proposed development to generate sufficient revenues to compensate the City for its fair-share of community service costs.
- IV. Require that infrastructure needs for proposed development meet the City standards prior to approval.
- V. Encourage that a Community Facilities District (CFD) or other financing option be established for the provision and maintenance of streets, and other public services.
- VI. Specifically, require that all new development plans include the costs of any landscaped arterial and median installation into the fiscal impact analysis. Also, that all new development install any and all arterial and open space landscaping. Require that new development annex into Landscaping and Lighting Maintenance District No. 2, or any other appropriate financing district.

SECTION 3 – CFD & OTHER FINANCING

COMPREHENSIVE GOALS AND POLICIES

I. INTRODUCTION

The City of Rialto (the "City") has developed the following Goals and Policies for the creation of community facilities districts for services and public facilities, and; where applicable, debt financing as guidelines to assist concerned parties in following the City's approach to Community Facilities Districts, Assessment Districts and debt financing. It is the City's goal to support projects that address a public need and provide a public benefit. Proposed projects requesting Community Facility District or Assessment District debt financing will be evaluated to determine if such financing is financially viable and in the best interest of the City and current and future City and project residents. These Goals and Policies are designed to comply with Section 53312.7 of the Government Code.

The City will consider applications requesting the formation of community facilities districts and assessment districts and, if applicable, the issuance of bonds to finance eligible public facilities pursuant to the Mello-Roos Community Facilities Act of 1982, as amended. The City may initiate services districts by direction of the City Council. The City reserves the right to request any reports, information or studies reasonably necessary in evaluating these applications.

All City and any consultant costs incurred in evaluating applications requesting the establishment of Districts will be paid by the applicant(s) by advance deposit increments or as otherwise agreed in writing by the City. The City shall not incur any non-reimbursable expense for processing such applications. Expenses not chargeable to the district shall be borne by the applicant.

II. DEFINITIONS

"1915 Act" means the Improvement Bond Act of 1915, as amended.

"AD" means an Assessment District formed under the 1913 Act.

"Bonds" means bonds authorized and issued under the Mello-Roos Community Facilities Act of 1982 or the Improvement Bond Act of 1915.

"City" means the City of Rialto.

"CFD" means a Community Facilities District formed under the Act.

"CFD Act" means the Mello-Roos Community Facilities Act of 1982, as amended.

"Public Facilities" means improvements authorized to be constructed or acquired under the Mello-Roos Act including, but not limited to, fees for capital facilities imposed by public agencies as a condition to approval of the development encompassed by the district or as a condition to service the district.

"Public Services" means public services authorized to be provided by a District pursuant to the Act.

"Value" or *"Fair Market Value"* means the amount of cash or its equivalent which property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of a difficulty of the other and both have knowledge of all of the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions upon uses and purposes.

III. ELIGIBLE PUBLIC FACILITIES, PRIORITIES AND PUBLIC SERVICES

The improvements eligible to be financed must be owned by a public agency or public utility, and must have a useful life of at least five (5) years. In any event, no bonds shall be issued with a maturity date greater than the useful life of the facilities or improvements being financed. The development proposed within the district must be consistent with the City's general plan, if any, and must have received any required zoning or specific plan approvals.

The list of public facilities, including fees relating thereto, eligible to be financed by a CFD or AD include, but are not limited to, the following:

- Streets, highways and bridges
- Street lighting
- Traffic signals and safety lighting
- Parks
- Governmental facilities
- Sanitary sewer facilities
- Storm drain facilities
- Potable and reclaimed water facilities
- Flood control facilities
- Libraries
- Public utilities
- Law enforcement and fire protection facilities
- Recreation facilities, including golf courses
- Biological mitigation measures involving land acquisition, dedicating and revegetation

In general, none of these types of facilities will have priority over the others; however, the City has final determination as to any facility's eligibility for financing, as well as the prioritization of facilities to be included within a financing district. Furthermore, when establishing a CFD the City may condition any facility's eligibility for financing on the allocation of an annual amount of special taxes for public services as determined by the City including, but not limited to law enforcement, fire and paramedics and/or the annexation of the proposed District requesting financing into an operation and maintenance district that the City may have established for such services.

IV. CREDIT QUALITY REQUIRED OF BOND ISSUES

In evaluating a proposed Bond issuance, the City may require that the City's financial advisor, if any, has reviewed and approved the proposed issuance of the Bonds.

V. DISCLOSURE REQUIREMENTS

A. Disclosure Requirement for Developers. The applicant will be required to demonstrate, to the satisfaction of the City, that there will be full disclosure of the Mello-Roos special taxes and any other special tax, assessment, overlapping special taxes or assessment of other districts, or other liens on individual parcels to existing and future property owners, and to prospective purchasers of property including interim purchasers and sales to merchant builders (Section 53341.5 of the Government Code). In addition to all requirements of law, the City shall require the applicant to provide disclosure of such information as the City deems appropriate to the purchasers of property within the District, with respect to the existence of the District, maximum and/or backup special taxes to be levied within the District, facilities to be constructed, services to be provided for which special taxes will be levied, the foreclosure process and the terms and conditions of Bond issues on behalf of the District. Such disclosure shall include homebuyer notifications requiring signature prior to home purchases, as well as methods to notify subsequent home purchasers.

B. Compliance with Federal Securities Laws. The City shall use all reasonable means to ensure compliance with applicable federal securities laws in connection with the issuance of debt and the provision of annual information regarding any District established by the City with respect to which Bonds have been issued, including requiring any developer in a District who is material to the Bond issue to transmit appropriate information to the City or its designee for disclosure to Bond investors.

VI. EQUITY OF TAX ALLOCATION FORMULAS

The rate and method of apportionment of the special tax and method of spread of assessment must be both reasonable and equitable in apportioning the costs of the public facilities to be financed and/or services to be provided to each of the parcels within the boundaries of the proposed District.

The rate and method of apportionment of the special tax and method of spread of assessment is to provide for the administrative expenses of the proposed District, including, but not limited to, those expenses necessary for the enrollment and collection of the special tax or assessment and Bond administration.

All property not otherwise exempted by the CFD Act from taxation or 1915 Act from assessment shall be subject to the levy of special tax or assessment. The rate and method of apportionment or method of spread of assessment may provide for exemptions to be extended to parcels that are to be dedicated at a future date to public entities, held by a home owner's association, or designated open space.

The annual special tax or assessment levy on each residential parcel developed to its final land use shall be approximately equal each year, except that a variation for administrative expenses will be allowed. The City will allow an annual escalation factor on parcels within a CFD.

The maximum annual special tax or special assessment, together with ad valorem property taxes, special assessments or taxes for an overlapping financing district, or any other charges, taxes, or fees payable from and secured by the property, including potential charges, taxes, or fees relating to authorized but unissued debt of public entities other than the City, in relation to the expected assessed value of each parcel upon completion of the private improvements to the parcel is of great importance to the City in evaluating the proposed financing.

The objective of the City is to limit the "overlapping" debt burden on any parcel to two percent (2.0%) of the expected assessed value of the parcel upon completion of the improvements. In evaluating whether this objective can be met, the City will consider the aggregate public service needs for the proposed project. It will consider what public improvements the applicant is proposing to be financed in relation to these aggregate needs and decide what is an appropriate amount to extend in public financing to the identified public improvements, as well as the appropriate level of special taxes to be levied for services.

This evaluation will be based on information obtained from other affected taxing entities that have jurisdiction to impose a levy on the proposed project.

The total maximum annual special taxes that can be collected from taxable property in a District, taking into account any potential changes in land use or development density or rate, and less all projected administrative expenses, must be equal to at least one hundred ten percent (110%) of the gross annual debt service on any Bonds issued by or on behalf of the District in each year that said Bonds will remain outstanding, plus the amount of any special taxes for services.

The rate and method of apportionment of any CFD special tax shall include a provision or a backup tax to protect against any changes in development that would result in insufficient special tax revenues to meet the debt service requirements of the district. Such backup tax shall be structured in such a manner that it shall not violate any provisions of the Mello-Roos Act regarding cross-collateralization limitations for residential properties.

The projected annual special tax or assessment revenues shall include reasonable administrative expenses and other direct costs to the District. For the purposes of estimating the annual District administration costs and expenses, the Cost Allocation Plan shall be used. If bonds are sold and special tax payments or assessments are not immediately required (capitalized interest), a reasonable amount of projected actual administrative costs and expenses will be funded from the proceeds of the bonds or from the developer.

A formula to provide for the prepayment of the special tax may be provided; however, neither the City nor the Community Facilities District shall be obligated to pay for the cost of determining the prepayment amount which is to be paid by the applicant. The method of prepayment for a 1915 Act must adhere to the provisions set forth in the 1915 Act, §8766-8766.5 of the California Streets and Highways Code.

Any proposed subsequent change in land use after formation of the district that would result in a decrease in special tax revenue for the property shall require the property owner to deposit with the City at the time of the land use change, the present value amount to cover the differential between the original authorized tax and the proposed projected tax, plus any required penalties or bond redemption premium. Any proposed subsequent change in land use after the formation of an assessment district must adhere to the 1915 Act formal assessment apportionment criteria set forth in the 1915 Act.

VII. APPRAISALS

A. Definition of Appraisal. An appraisal is a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.

B. Standards of Appraisal. The format and level of documentation for an appraisal depend on the complexity of the appraisal problem. A detailed appraisal shall be prepared

for complex appraisal problems. A detailed appraisal shall reflect nationally recognized appraisal standards, including, to the extent appropriate, the Uniform Appraisal Standards for Federal Land Acquisition. An appraisal must contain sufficient documentation, including valuation data and the appraiser's analysis of the data, to support his or her opinion of value. At a minimum, the appraisal shall contain the following items:

- (1) The purpose and/or the function of the appraisal, a definition of the estate being appraised, and a statement of the assumptions and limiting conditions affecting the appraisal.
- (2) An adequate description of the physical characteristics of the property being appraised, location, zoning, present use, an analysis of the highest and best use.
- (3) All relevant and reliable approaches to value consistent with commonly accepted professional appraisal practices. If a discounted cash flow analysis is used, it should be supported with at least one other valuation method such as a market approach using sales that are at the same stage of land development. If more than one approach is utilized, there shall be an analysis and reconciliation of approaches to value that are sufficient to support the appraiser's opinion of value.
- (4) A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source, and method of financing, and verification by a party involved in the transaction.
- (5) A statement of the value of the real property.
- (6) The effective date of valuation, date of appraisal, signature, and certification of the appraiser.
- (7) Conflict of Interest. No appraiser or review appraiser shall have any interest direct or indirect in the real property being appraised for the Agency that would in any way conflict with the preparation or review of the appraisal. Compensation for making an appraisal shall not be based on the amount of the valuation.
 - (a) Community Facilities District Appraisal Premises. The valuation of proposed community facilities districts should be based on three premises:
 - (i) Raw Land Value (Premise No. 1). The total land within the project is valued "as is"
 - (ii) With any existing infrastructure.
 - (iii) Without proposed infrastructure being financed.

- (iv) With existing parcel configuration.
- (v) Considering planned densities allowed by the specific plan of the project.

This is a typical type of land valuation.

- (b) Project Build Out Value (Premise No. 2). The total land within the project is valued under projected conditions:
 - (i) With proposed infrastructure being financed completely.
 - (ii) At the planned densities allowed by the specific plan.
 - (iii) Land development is at the stage of being marketed to merchant builders or tentative tract maps ready to be filed.

This is a projected value based on project plans predicated on market conditions continuing as projected.

- (c) Bulk Land Value (Premise No. 3). The total land within the project is valued under projected conditions:
 - (i) With proposed infrastructure being financed completely.
 - (ii) With existing parcel configuration.
 - (iii) Considering planned densities allowed by the specific plan of the project.

This premise should consider a discounted or "quick sale" valuation considering time, costs, and the possibility of a per unit value based on the total size of the project.

SECTION 3 - EXCEPTIONS TO THESE POLICIES

The City may find in limited and exceptional instances that a waiver to any of the above stated policies is reasonable given identified special City benefits to be derived from such waiver. Such waivers are granted only by action of the City Council based upon specific public purpose and/or health and safety findings.



CITY OF RIALTO

Debt Issuance and Management Policy

SECTION 1 – PURPOSE

The purpose of this Debt Issuance and Management Policy (the “Policy”) is to provide written guidelines for issuing debt and managing outstanding debt and to provide guidance to policy makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, and method of sale that may be used. Adherence to a debt policy helps ensure the City’s debt is prudently issued and managed in order to maintain a sound financial position and optimal credit ratings. The policies and procedures herein are subject to and limited by applicable provisions of state and federal law and commonly accepted debt management principles.

This Policy is intended to comply with the requirements of Senate Bill 1029, codified as part of Government Code Section 8855 (i), effective on January 1, 2017. This Policy is applicable to all entities for which the City Council acts as legislative body. These entities include, but are not limited to, the City of Rialto, the Rialto Nonprofit Public Building Authority, the Rialto Public Financing Authority, the Rialto Utility Authority, the Rialto Housing Authority, and the City’s various Community Facilities Districts. When used in this Policy, the term “City” shall refer to each of such entities and “debt” or “bonds” refers to all indebtedness and financing lease obligations of the City.

SECTION 2 – POLICY OBJECTIVES

The City recognizes that a fiscally responsible debt policy is required in order to:

- Maintain the City’s sound financial position.
- Ensure the City has the flexibility to respond to possible changes in future service priorities, revenues, and operating expenses.
- Protect the City’s creditworthiness.
- Ensure the City’s debt is consistent with the City’s planning goals and objectives and capital improvement program and/or budget, as applicable.

The main objectives of this Policy are to establish conditions for the use of debt:

- To ensure debt capacity and affordability are adequately considered.
- To minimize the City’s interest payments and issuance costs.
- To achieve the highest practical credit ratings, when applicable.
- To provide complete financial disclosure and reporting.
- To ensure the City is in compliance with all relevant State and Federal securities laws and other applicable laws and regulations.

SECTION 3 – ACCEPTABLE USES OF DEBT PROCEEDS

The City will consider the use of long-term debt financing primarily for the acquisition, substantial refurbishment, replacement, or expansion of capital assets and capital improvement projects only if the project's useful life will equal or exceed the term of the financing or will otherwise comply with Federal tax law requirements. If issued for the purpose of refunding, refinancing or restructuring, long-term debt will be considered only if it complies with the refunding parameters and objectives discussed later in this Policy.

An exception of this long-term driven focus is the issuance of short-term instruments which are to be used for prudent cash management purposes, as described below. 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 or refinance the construction, acquisition, substantial refurbishment, rehabilitation, replacement or expansion of capital assets such as 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:
 - When the project being financed is necessary to provide basic municipal services.
 - When the project being financed will provide benefit to the City's constituents over multiple years.
 - When the total effect of the debt financing would not impose an unreasonable burden on the City and its taxpayers or ratepayers, as applicable.
 - When the debt is issued to refinance outstanding debt in order to benefit from debt restructuring or to produce debt service savings.
- (ii) Long-term debt financing will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
- (iii) The City may use long-term debt financings subject to the following conditions:
 - The project being financed has been, or will be, included in the City's capital improvement plan or budget and approved by the City Council.
 - The weighted average maturity of the debt allocated to the project will not exceed 120% of the average reasonably expected economic life of the project being financed, subject to exceptions described later in this Policy.
 - The City estimates that sufficient income and revenues will be available to service the debt through its maturity.

- The City determines that the debt issuance will comply with the applicable requirements of State and Federal law.
 - The City considers the project to be of vital, time-sensitive need for the community and there are no plausible alternative financing sources, such as pay-as-you-go funding, the use of grants or existing available funds on hand, or any combination thereof.
- (iv) The City will undertake periodic reviews of outstanding long-term debt to identify refunding opportunities. Refundings will be considered (within the federal tax law constraints, if applicable) if there is a net economic benefit from the refunding. Refundings which are non-economic may be undertaken to achieve City objectives related to changes in covenants, call provisions, operational flexibility, tax status, or restructuring of the debt service profile. In general, refundings resulting in a minimum of 3% net present value savings of the refunded debt will be considered economically viable. Refundings producing less than 3% net present value savings will be considered on a case-by-case basis, and are subject to City Council approval.

B. Short-Term Debt

- (i) 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 in the event of temporary cash flow shortfalls resulting from the timing of revenues and the deficiency of cash on hand.
- (ii) Short-term debt may also be used to finance the City's short-lived capital projects, such as lease-purchase financing or equipment.
- (iii) Prior to issuance of any short-term debt, a reliable revenue source must be identified for repayment of the debt.
- (iv) The City may issue Interfund loans rather than outside debt instruments to fund short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact its current operations. Interfund loans must be approved by the City Council and have a defined repayment term. The prevailing interest rate, as established by the City's Finance Department, will be paid to the lending fund.

Financings on Behalf of Other Entities

- (i) The City may also issue debt on behalf of other governmental agencies 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 being financed and the financial solvency of any borrower and that the issuance of such debt is consistent with this Policy.

SECTION 4 – TYPES OF DEBT

In order to maximize the financial options available to benefit the public, the City will consider the issuance of all generally acceptable types of debt subject to a careful review by management. The review shall include an analysis of all available and projected funding sources and how the proposed debt structure would fit within the overall debt portfolio of the City to determine whether it meets the City's long-term objectives. The City shall not undertake any new debt obligations without a thorough analysis of the City's long-term revenue and expenditure trends and its ability to support and service additional debt payments. The generally acceptable types of debt the City may consider include the following:

A. General Obligation (GO) Bonds

- (i) 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. All GO bonds shall be authorized by the requisite number of voters in order to pass. Examples of projects include libraries, parks, and public safety facilities.

B. Revenue Bonds/Certificates of Participation (COPs)

- (i) Revenue Bonds and COPs are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the financed projects 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 and it is not subject to a debt limitation, but in some cases, the City must comply with Proposition 218 regarding rate adjustments. Examples of this type of bond include Water Revenue Bonds, Wastewater Revenue Bonds, Water Revenue Certificates of Participation, Sewer System Revenue Bonds, and Wastewater Revenue Certificates of Participation.

C. General Fund-Supported Debt

- (i) General Fund-Supported Debt is generally comprised of COPs and Lease Revenue Bonds (LRBs) which are lease obligations secured by an installment sale or lease-back arrangement between the City and another public entity. Typically, the City appropriates annually available General Fund revenues or funds on hand to pay the lease payments to the other entity and, in turn, the public entity uses the lease payments received by the City to pay debt service on the COPs or the LRBs.

- (ii) General Fund-Supported Debt may also include judgment obligation bonds (JOBs) issued to refund obligations imposed by law, such as judgments, or pension obligation bonds (POBs) issued to refund unfunded accrued actuarial liabilities for pension plans.
- (iii) Lease-backed debt does not constitute indebtedness under the state or City's constitutional debt limit and does not require voter approval.

D. Land-Secured Debt

- (i) Land-Secured Debt is generally comprised of special assessment/special tax debt issued under the Mello-Roos Community Facilities Act of 1982, as amended, by special districts such as Community Facilities Districts (CFDs) and limited obligation bonds issued under applicable assessment statutes by 1913/1915 Act Assessment Districts (ADs). As of the date of this Policy, the City's special districts consist of CFD 87-1 and CFD 2006-1 (Elm Park) and any CFD maintenance districts.
- (ii) The City will consider requests for special district formation and debt issuance secured by property based assessments or special taxes in order to provide necessary infrastructure for new development under guidelines provided in the Fiscal Policy for New Development and Annexations adopted by the City Council, which may include minimum value-to-lien ratios and debt service coverage, and maximum tax burdens. Each application will be considered on a case-by-case basis. Typically, the City will require a minimum value-to-lien of 3 to 1 prior to issuing any CFD or AD bonds. In order to protect bondholders as well as the City's creditworthiness, the City will also comply with all State guidelines regarding the issuance of special tax or special assessment debt.

E. Loans

- (i) 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. Examples include State Revolving Fund Loans, Infrastructure and Development Bank (I-Bank) Loans, Interfund loans to and from special revenue, enterprise, and internal service funds.

F. Tax Allocation Bonds

- (i) 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 issue Tax Allocation Bonds only to refund 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. Tax Increment Financing

- (i) Tax Increment Financing provides options to finance infrastructure and economic development projects using as a repayment stream property tax revenues generated above

an established “base year” value (tax increment). The City may consider tax increment financing to the extent permitted under State law. Examples include Tax Allocation Bonds as well as debt issued by Enhanced Infrastructure Financing Districts (EIFDs) or Community Revitalization and Investment Authorities (CRIAs). When considering tax increment financing mechanisms permitted by law, the City should analyze the practical viability of the proposed financing and take into account the potential impact of the proposed structure on existing debt limitations.

H. Conduit Financing

- (i) Conduit financing involves the issuance of securities by a government agency to finance a third party’s project such as of a non-profit organization or other private entity. Conduit financings are typically not secured by the City’s credit. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City’s overall service and strategic objectives. While conduit financings do not constitute a general obligation of the issuer, the same level of due diligence prior to bond issuance is required. Examples include industrial development bonds and financings for affordable rental housing and qualified 501(c)(3) organizations.

I. Short-Term Financing

- (i) Short-term borrowing, such as commercial paper, Tax and Revenue Anticipation Notes (TRANs), Bond or Grant Anticipation Notes (BANs), and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing or receipt of revenues 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.
- (ii) In compliance with applicable State law, any such notes shall be payable either not later than the last day of the fiscal year in which they are issued or during the fiscal year succeeding the fiscal year of issuance, but in no event later than 15 months after the issuance date, and only if such notes are payable solely from revenue received or accrued during the fiscal year in which they were issued.
- (iii) Short-term debt may also be used to finance short-lived capital projects, such as equipment or lease-purchase financing.

J. Joint Powers Authority (JPA) Financing

- (i) In addition to some of the long- and short-term financing instruments described above, the City may also consider joint powers arrangements with other governmental agencies when a project serves the public interest beyond city boundaries.

K. Refunding Bonds

- (i) The City shall refinance debt pursuant to the authorization that is provided under California law, including but not limited to Articles 10 and 11 of Chapter 3 of Part 1 of

Division 2 of Title 5 of the California Government Code, as market opportunities arise. The Director of Administrative and Community Services shall identify refunding opportunities and prepare a present value analysis that describes the economic effects of the refunding. Refundings may be undertaken in order to:

- Take advantage of lower interest rates and achieve debt service cost savings.
 - Eliminate restrictive or burdensome bond covenants.
 - Restructure debt to lengthen the duration of repayment, relieve debt service spikes, reduce volatility in interest rates or free up reserve funds.
- (ii) Generally, the City shall strive to achieve a minimum of 3% net present value savings for a current refunding and a minimum of 5% net present value savings for an advance refunding. Upon the advice of the Director of Administrative and Community Services and with the assistance of the City's municipal 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 Policy. Although alternative financing structures and debt instruments may provide a lower borrowing cost in the short run, they may carry greater risk in the long run. Before entering into such arrangements, the City should carefully evaluate the benefits and risks associated with such alternative financing mechanisms and the potential implications on the City's debt affordability and credit profile.

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 a specific circumstance.

SECTION 5 – STRUCTURE AND TERM OF DEBT ISSUES

The City will establish all terms and conditions related to the issuance of debt, and will control, manage, and invest all debt proceeds. The following restrictions will be followed unless otherwise authorized by the City.

A. Term of Debt

- (i) Debt will be structured for the shortest practicable period, consistent with a fair allocation of costs to current and future users. Typically, the term of long-term debt borrowing is 5-30 years. Generally, the weighted average maturity of the debt should not exceed 120% of the weighted average economic life of the projects or equipment being financed, unless there are specific circumstances that would mitigate the extension of time to repay the debt and it would not result in violation of any covenants to maintain the tax-exempt status of such debt, if applicable.

B. Debt Repayment Structure

- (i) In structuring a debt issue, the City will manage the amortization of debt and, to the extent possible, match its cash flow to the anticipated debt service payments. The City shall design the repayment of debt to take best advantage of market conditions, provide flexibility, and, as practical, to recapture or achieve its best credit rating. The City will evaluate alternative debt structures to ensure the most cost-efficient financing under prevailing market conditions.
- (ii) The City will generally seek to structure debt with aggregate level annual debt service payments over the life of the debt. Structures with non-level debt service will be considered when one or more of the following exist:
 - Natural disasters or extraordinary unanticipated external factors prohibit debt payments in the early years of the issuance.
 - Such structuring is beneficial to the City’s aggregate overall debt payment schedule.
 - Such structuring will allow debt service to more closely match project revenues.

C. Bond Maturity Options

- (i) For each bond issuance, the City will select serial bonds or term bonds, or both. On occasions where circumstances warrant, capital appreciation bonds (CABs) may be used. The decision to use serial bonds, term bonds or CABs or any combination is typically based on market conditions and investor demand.

D. Credit Enhancement

- (i) Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include letters of credit, bond insurance and surety policies. The City’s municipal advisor may recommend the use of a credit enhancement if it reduces the overall cost of the proposed financing or if the use of such credit enhancement furthers the City’s overall financing objectives.

E. Debt Service Reserve Fund

- (i) Debt service reserve funds are held by the bond trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. The City will fund debt service reserve funds when it is in the City’s overall best financial interest.
- (ii) Under federal tax law, the size of the reserve fund is generally limited to the lesser of 10% of par amount of bonds, 125% of average annual debt service, and 100% of maximum annual debt service.
- (iii) In lieu of holding a cash reserve, the City may substitute a surety bond or other credit instrument in its place. The decision to cash fund a reserve fund rather than to use a credit facility is dependent on the cost of the credit instrument and the investment opportunities.

- (iv) The City may decide not to utilize a reserve fund or to fund a partial reserve fund if the Director of Administrative and Community Services, assisted by the City’s municipal advisor, determines there would be no adverse impact on the City’s credit rating or interest rates.

F. Call Provisions

- (i) A call option or optional redemption provision gives the City the right to prepay or retire debt prior to its stated maturity date. This option may permit the City to achieve interest savings in the future through the refunding of the debt. Because the cost of call options can vary depending on market conditions, an evaluation will be conducted in connection with each issuance.
- (ii) In general, the City’s debt issues will include a call feature that is no later than ten (10) years from the date of delivery of the debt. The City will generally avoid the sale of non-callable debt. The use of a call option will be evaluated and recommended on a case by case basis.

SECTION 6 – RELATIONSHIP TO CAPITAL IMPROVEMENT PROGRAM AND OPERATING BUDGET

The City’s multi-year Capital Improvement Program (CIP) sets priorities for projects and funding while this Policy provides direction and limitations for proposed financings undertaken to implement the CIP. Debt issuance for capital projects should be incorporated into the Capital Improvement Program to be recommended for City Council approval and integrated with the City Council-adopted annual Operating 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.

SECTION 7 – POLICY GOALS RELATED TO PLANNING GOALS AND OBJECTIVES

The City is committed to long-term financial planning, maintaining appropriate reserve 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 Operating Budget.

It is a policy goal of the City to protect taxpayers, ratepayers (if applicable) and constituents by utilizing conservative and prudent financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

It is a policy goal of the City to minimize debt service commitments through efficient planning and cash management. 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.

SECTION 8 – INTERNAL CONTROL PROCEDURES

When issuing debt, in addition to complying with the terms of this Policy, the City shall comply with 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:

- Federal securities law, including 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.
- The City's investment policies as they relate to the investment of bond proceeds.
- 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 such debt was issued. The City Manager, Director of Administrative and Community Services or designee will monitor the expenditure of bond proceeds to ensure they were used only for the purpose and authority for which the bonds were issued. Proceeds of debt will be held either by: (a) a third-party trustee or fiscal agent, who will disburse such proceeds to or upon the order of the City upon the submission of one or more requisitions by the Director of Administrative and Community Services (or her or his 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.

SECTION 9 – AMENDMENT AND WAIVER OF DEBT POLICY

This Policy will be reviewed and amended from time to time as appropriate subject to City Council approval.

There will be circumstances from time to time when strict adherence to one or more provisions of this 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 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 such waiver on the proposed debt issuance, taxpayers, and the City, as and if applicable. Upon a majority vote of the City Council, one or more provisions of this Policy may be waived for a particular debt financing.

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

SECTION 10 – SB 1029 COMPLIANCE

Senate Bill 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.
 - (i) Section 3 (Acceptable Uses of Debt Proceeds) addresses the purposes for which debt proceeds may be used.
- B. The types of debt that may be issued.
 - (i) Section 4 (Types of Debt) and Section 5 (Structure and Term of Debt Issues) provide 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.
 - (i) Section 6 (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.
 - (i) Section 2 (Policy Objectives) and Section 7 (Policy Goals Related to Planning Goals and Objectives) address some of the City’s policy goals and how this Policy has implemented them. As described in these and other sections, this Policy has been adopted to assist the City with its goal of maintaining fiscal sustainability and financial prudence.
- E. The internal control procedures that the issuer has implemented, or will implement, to ensure the proceeds of the proposed debt issuance will be directed to the intended use.
 - (i) Section 8 (Internal Control Procedures) provides information regarding the City’s internal control procedures designed to ensure that debt proceeds are spent as intended.

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

Debt Issuance and Management Policy

Adopted on _____, 2017