



## City of Riverside Debt Management Policy

Approved by the City Council on \_\_\_\_\_

### PURPOSE:

The City's Debt Policy is intended to ensure issuance and administration of City debt in compliance with the State of California Constitution, City Charter, and other legislative guidelines and be in alignment with the City's strategic goals, including providing transparency of the City's debt practices and obligations. This policy is further intended to comply with the Senate Bill 1029 Amendment to the California Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the City.

The City's debt policy will ensure prudent debt management practices which:

- Maintain the City's sound financial position.
- Ensure that the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect and enhance 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.
- Ensure that the City's debt is consistent with the City's strategic goals and objectives and capital improvement programs and budgets, as applicable.

### POLICY:

#### Scope

This policy applies to all debt instruments issued by the City (all City departments) and agencies including debt issued by the City on behalf of third parties. Third-party debt includes assessment districts and community facilities districts, as well as conduit debt.

#### Debt Limits

The City will comply with all federal, state and local legislative requirements in the issuance and administration of debt. Applicable state and local laws include:

California Government Code §43600:

*A city shall not incur an indebtedness for public improvements which exceeds in the aggregate 15 percent of the assessed value of all real and personal property of the city. Within the meaning of this section "indebtedness" means bonded indebtedness of the city payable from the proceeds of taxes levied upon taxable property in the city.*

Riverside City Charter §1108:

- (a) *The City shall not incur an indebtedness evidenced by general obligation bonds which shall in the aggregate exceed the sum of fifteen percent of the total assessed valuation, for purposes of City taxation, of all the real and personal property within the City.*
- (b) *No bonded indebtedness which shall constitute a general obligation of the City may be created unless authorized by the affirmative votes of two-thirds of the electors voting on such proposition at any election at which the question is submitted to the electors and unless in full compliance with the provisions of the State Constitution and of this Charter.*

#### Debt Purpose

##### Long-Term Debt

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 operated by the City and its departments.

Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses, except as recommended by the Chief Finance Officer/City Treasurer.

The City may use long-term debt financings subject to the following conditions:

- The project to be financed must be recommended by the City's Chief Finance Officer/City Treasurer and approved by the City 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 by more than 20%.
- The City estimates that sufficient revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with the applicable state and federal law.

#### *Short-term debt*

Short-term debt may be issued to provide financing for the City's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

#### *Financings on Behalf of Other Entities*

The City may find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of the City. In such cases, the City will take reasonable steps as required by law 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. All expenses for these financings will be paid for by the borrower of the debt – not the City.

#### Debt Types and Structure

The City's Chief Finance Officer/City Treasurer, in consultation with a third-party financial advisor, will research the various funding options and select a debt type and structure that is appropriate for the stated debt purpose, financially beneficial to the City, compliant with governing laws and regulations, and in alignment with City goals, principles and values.

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

- General obligation and pension obligation bonds
- Bond or grant anticipation notes
- Lease revenue bonds, certificates of participation and lease-purchase transactions
- Other revenue bonds and certificates of participation
- Tax and revenue anticipation notes
- Capital leases
- Land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under

- applicable assessment statutes
- Tax increment financing to the extent permitted under state law
- Conduit financings

The City's Chief Finance Officer/City Treasurer 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 Management Policy.

Debt shall be issued as fixed rate debt unless the City's Chief Finance Officer/City Treasurer makes a specific determination as to why a variable rate issue would be beneficial to the Issuer in a specific circumstance.

An analysis of optimal debt structure will consider the following factors:

- Bond and lending markets
- City's existing and potential bond ratings
- Draw down schedule
- Acceptable payback periods
- Impact upon parties to whom assessment or rates will be levied, such as:
  - Developer
  - Property owners
  - Business owners
  - Ratepayers

#### Debt Issuance Practices

The City has established the following practices for the issuance of debt:

- Identify need for debt obligation: City-issued debt will be based on capital improvement budgets and/or refinancing opportunities, while debt issued on behalf of others (e.g., assessment districts or community facilities districts) will often be requested from external sources and approved as appropriate.
- Assemble an advisor team: An advisor team consisting of a financial advisor, underwriter, bond counsel, and the fiscal agent is identified and brought under contract.
- Determine the most appropriate debt structure: The advisor team works with and reports to the Chief Financial Officer/City Treasurer or designee to determine the most appropriate debt structure based on several factors including the size of the issuance, draw down and repayment periods, repayment sources, and the debt issuance market.
- Develop the Official Statement or Loan Documents: The official statements for bond issuances or loan documents for loan structures are prepared in anticipation of issuing the debt instrument.
- Issue debt: The debt instrument is issued and the proceeds are deposited in City trust accounts available for draw down; in the case of a refunding, the proceeds are used to pay off the existing debt obligation.

#### Debt Management Practices

The City's Chief Finance Officer/City Treasurer or designee is given the authority and responsibility to administer, manage, implement and incur debt (with City Council approval) of all the City's debt and third-party debt as appropriate.

#### *Relationship to Capital Improvement Program and Budget*

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

The City shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The City shall seek to avoid

the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are funded when needed in furtherance of the City's public purposes.

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

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

#### *Policy Goals Related to the City's Strategic Goals and Objectives*

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City intends to issue debt for the purposes stated in this Policy and to implement policy decisions incorporated in the City's annual operations budget.

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

The City will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

When refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations (unless otherwise recommended by the City's Chief Finance Officer/City Treasurer),

- minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and
- present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

#### *Internal Controls*

When issuing debt, in addition to complying with the terms of this policy, the City will comply with any other applicable policies, procedures 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,
- the City's investment policies as they relate to the investment of bond proceeds, and
- any other requirements by state law that are applicable to the City of Riverside.

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 Chief Financial Officer/City Treasurer. In those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Chief Financial Officer/ City Treasurer and/or his designee shall retain records of all expenditures of proceeds through the final payment date for the debt.

Use of derivatives

The City uses derivative instruments to hedge its exposure to changing interest rates through the use of interest rate swaps. The City may utilize interest rate swaps to better manage its interest rate based assets and liabilities and to the extent utilized, interest rate swaps should be considered in the context of the City's overall asset and liability management efforts. The City shall not utilize interest rate swaps for speculative purposes. Refer to the Finance Department *Master Swap Policy* for further information regarding the City's use of derivatives.

**PROCEDURE:**

| <b>Responsibility</b>           | <b>Action</b>   |
|---------------------------------|---|
| Financial Resources Division    | 1. Budget Analyst obtains assessed valuation for the City and performs the legal debt limit calculation for general obligation debt and prepares the calculation table for inclusion in the annual budget.  |
| Finance Administration Division | 2. For proposed debt issuances financed by other than general tax revenues, the Chief Finance Officer/City Treasurer or designee along with the financial advisor, if any, determine the impact of the proposed issue on the anticipated revenue stream or other source for repayment to ensure adequate capacity is available for the issue. |
| Financial Resources Division    | 3. Monitors debt service annually and the required debt service amounts for the upcoming fiscal year are provided by the Debt Analyst to each appropriate department by January for inclusion in their annual budget development.   |