RESOLUTION NO. PFA01-17

Resolution Of The Board Of Directors Of The Emeryville Public Financing Authority Adopting The Debt Management Policy

WHEREAS, California Senate Bill (SB) 1029 was signed into law on September 12, 2016; and

WHEREAS, SB 1029 requires California public agencies to adopt comprehensive debt management policies before any new debt can be issued starting in January 2017; and

WHEREAS, the proposed Debt Management Policy complies with the requirements described in SB 1029 and aligns with Government Finance Officers Association recommendations; and

WHEREAS, the proposed Debt Management Policy was reviewed by the Budget and Governance Committee on October 12, 2017; now, therefore, be it

RESOLVED, that the Board of Directors hereby adopts the Debt Management Policy, attached hereto as Exhibit A, to take effect on November 7, 2017.

ADOPTED, by the Board of Directors of the Emeryville Public Financing Authority at a special meeting held November 7, 2017, by the following vote:

AYES:	**5**	Chair Donahue, Vice Chair Bauters and Authority Members Martinez, Medina and Patz
NOES:	**0**	
ABSTAIN:	**0**	
ABSENT:	**0**	

T. Scott Donahue
MAYOR

ATTEST:

CITY CLERK

Michael Guina
CITY ATTORNEY

City of Emeryville
CALIFORNIA

TITLE:	Debt Management Policy
REFERENCE:	Government Code Section 8855 Senate Bill 1029 (SB 1029)
DATE:	September 2017

I. INTRODUCTION

Background:

On September 12, 2016, the Governor signed Senate Bill ("SB 1029") which requires California public agencies to adopt comprehensive written debt management policies. Therefore, the policies set forth in this Debt Management Policy (the "Policy") have been developed to provide clear and comprehensive guidelines for the issuance and financial management of the debt portfolio of the City of Emeryville, the Emeryville Public Financing Authority, and the Successor Agency to the Emeryville Redevelopment Agency. The term "City" shall refer to each of such entities. This Policy addresses the basic areas and provides guidance concerning best practices as recommended by the Government Finance Officer Associates (GFOA). This Policy is intended to comply with Government Code Section 8855(i), which became effective January 1, 2017. Section 8855(i) was added via SB 1029. This policy should also reflect local, state, and federal laws and regulations. The Policy should not be so restrictive that it limits or interferes with the City's day to day operations and ability to provide services to its public. Decisions made are done with the proper authorization and sound financial management practices that benefit the City with minimal risk.

Purpose and Goals:

The purpose of the Policy is to provide a functional tool for debt management and capital planning, as well as to enhance the City's ability to manage its debt obligations and lease financings (collectively referred to as "debt" in this Policy) in a conservative and prudent manner.

The Policy is also designed to:

- Establish parameters for issuing and managing debt;
- Provide guidance to decision makers related to debt affordability standards;
- Direct the pre- and post-issuance objectives to be achieved by staff;
- Promote objectivity in the debt approval decision making process; and
- Facilitate the actual financing process by establishing important policy decisions in advance.

The City shall pursue the following goals:

- Minimize debt service and issuance costs;

- Maintain access to cost-effective borrowing;
- Achieve the highest possible credit rating;
- The City shall take all practical precautions and proactive measures to avoid any financial decision that will negatively impact current credit ratings on existing or future debt issues.
- The City shall match the term of the issue to the useful lives of assets whenever practicable and economical, while considering repair and replacement costs of those assets to be incurred in the future.
- The City shall, when planning for the sizing and timing of debt issuance, consider its ability to expend the funds obtained in a timely, efficient and economical manner.

II. SCOPE

The guidelines established by this Policy will govern the issuance and management of all debt funded for short and long term capital financing needs and cash flow needs. The Finance Department recognizes that changes in the capital markets and other unforeseen circumstances may require exception to this Policy, for which approval from the City Council will be necessary for implementation. The Policy may be amended by the City Council as it deems appropriate from time to time in the prudent management of the debt of the City. Any approval of debt by the City Council that is not consistent with this Policy shall constitute a waiver of this Policy.

III. DELEGATION OF AUTHORITY

The Finance Director shall be responsible for all of the financial affairs of the City. This Policy grants the Finance Director the authority to select the financing team, which may include, but not limited to, municipal advisor, bond counsel, disclosure counsel, underwriter, financial advisor, and trustee/fiscal agent. The Finance Director will also coordinate the administration and issuance of debt, communicate with the rating agencies, as well as to fulfill all the pre-issuance and post-issuance disclosure information.

Former Redevelopment Agency – As of February 1, 2012, the Emeryville Redevelopment Agency was dissolved and the City assumed the responsibility of winding the operations as the Successor Agency. The passage of AB X1 26 outlined terms that required the Successor Agency to administer the outstanding debt obligations, including debt service, reserves, and other obligations under the bond indentures. This Policy extends to the outstanding bonds and future issuance of debt administered by the Successor Agency.

IV. DEBT TERMS

The City Council recognizes that new debt obligations may impact the long-term affordability of all outstanding debt and any future planned debt, as well as budgetary impacts associated with the maintenance and operating costs of debt-financed facilities.

Term of Debt – Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Debt shall not be issued for a term that exceeds the useful life of the debt-financed asset.

Debt Repayment – The City should determine the source of revenue for debt service payments and the purposes that it may be pledged. Typically, the City desires level debt service payments over the term of the debt. However, the cost of capital, financial risk, current economic conditions, future financial flexibility, credit rating and available cash flow will be evaluated to determine the most appropriate method of debt amortization for each debt issue.

Bond Maturity – No bonds shall be issued with a maturity date greater than the expected useful life of the facilities or improvements being financed.

Interest Rate Structure – The City will issue securities on fixed or variable interest rates, whichever will be most beneficial to the City.

Debt Service Reserve Fund – Debt service reserve funds are held by the Trustee to make principal and interest payments to bondholders in the event the 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.

Call Options / Redemption Provisions – 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 bonds. The Finance Director shall evaluate and recommend the use of a call option on a case by case basis.

Debt Limits – The City is subject to debt capacity limit for its general obligation bonds: 3.75% of assessed value. California Government Code Section 43605 states the City shall not incur bonded indebtedness payable from the proceeds of property tax which exceeds 15 percent of the assessed value of all real and personal property of the City. When taking into account the provisions of Article XIIIA, Section 1(a) of the California Constitution, the Emeryville debt limit should be read as 3.75% of assessed value.

V. TYPES OF DEBT

Long-term debt – Long-term debt may be used to finance the acquisition or improvement of land, infrastructure, facilities or equipment for which it is appropriate to spread the costs of such over more than one budget year. Long-term debt may be used to fund capitalized interest, cost of issuance, required reserves and any other financing related costs that may be legally capitalized. Long-term debt should not be used to fund City operating costs.

Short-term debt – Short-term debt will be considered as an interim source of funding in anticipation of long-term debt. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and financing-related costs. Short-term debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund the operating costs of the City to provide necessary public services. The City will not engage in short-term borrowing solely for the purpose of generating investment income.

Refunding – Refunding opportunities will be identified by periodic review of outstanding debt obligations. Refunding will be considered when there is a net economic benefit from the refunding. Non-economic refunding may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer or other non-economic factors related to the debt.

The following are types of debt the City could issue, but not limited to:

1. General Obligation (GO) Bonds - In California, GO Bonds require a supermajority voter approval. Most GO bonds are backed by the issuer's ability to level ad valorem tax in amounts sufficient to meet debt service. Examples of projects include housing, libraries, parks, and public safety facilities.

2. Refunding Debt - Refunding debt is debt issued to refinance (refund) previously issued outstanding debt. The City may issue refunding debt to refinance the principal and interest on outstanding bonds or other debt to achieve debt service savings, restructure schedule debt service or convert from variable to fixed interest rate, change or modify the source(s) of payment and security for the funded debt, or modify covenants otherwise binding upon the City.

3. Revenue Debt - Revenue debt is generally issued for enterprise funds that are financially self-sustaining without the use of general fund revenue sources and therefore rely on the revenues collected by the enterprise fund to repay the debt.

4. Land-Secured Debt - Examples of land-secured debt include 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. Land-secured debt is payable from special taxes or assessments that the City will levy on the secured property tax roll.

5. Lease Financings - Lease revenue bonds, certificates of participation (also known as "COPs") and lease-purchase transactions are examples of lease financings.

6. Tax and Revenue Anticipation Notes (TRAN) - A TRAN is issued when the City's anticipated operating revenues are not available when the City's operating expenses need to be paid, which is a common operational challenge for California cities given the irregular distribution of sales tax and property tax revenues.

7. Tax Increment Financings - Tax increment financing may be used to the extent available under California law.

8. Conduit Financings - The City may agree to provide conduit financing for specific public purposes, such as financings for affordable rental housing and qualified 501c3 organizations. In a conduit financing, the debt is typically repaid with non-City revenues.

9. Other Debt Obligations - Other revenue bonds, bond anticipation notes, grant anticipation notes, loans, lines of credit, and equipment lease financings.

The City may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy.

VI. DEBT ISSUANCE

The City has the capacity to issue long and short-term debt and to refund any outstanding debt. The following section details the purposes for debt issuance, the method of sale for such debt and the practices for obtaining professional assistance in the debt issuance process.

Purposes for which debt may be issued:

- Capital Improvement Program (CIP) Projects: The Finance Department will work with other City departments to assess the City's borrowing and capital needs, determining, if the availability of funds can be raised through debt for improvements to buildings, infrastructure and other systems, such as storm drains, sidewalks, etc.
    i. Debt shall only be issued for working capital for operations after cash flow analysis has determined that there is a mismatch between available cash and cash outflows.
    ii. Working capital debt shall be repaid by the end of the fiscal year in which the debt was incurred.

- Vehicle and Equipment Needs: The City also maintains the vehicle and equipment needs for various departments such as public safety and information technology. These assets have a minimum useful life of three years. Loans and capital leases can be executed to meet the needs of replacing such assets.

VII. ON-GOING DEBT ADMINISTRATION - MANAGEMENT AND MONITORING

Once debt has been issued, management and monitoring debt activities is the responsibility of the Finance Director and the department. Adequate internal control procedures must be in place to ensure compliance with accounting/deb policies. Such activities include but are not limited to:

- Investment of Bond Proceeds: When governments issue bonds they deposit the bond proceeds in various funds, which may include a construction fund, debt service fund, capitalized interest fund, debt service reserve, or in the case of a refunding, an escrow fund. In some cases, these funds may be held by a third party trustee and are invested until used. Investments of these proceeds should be in compliance with the City's investment policy, which should be disclosed and summarized in the Official Statement.

- Use of Debt Proceeds: The City shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager/designee or the Finance Director/designee. Appropriate documentation and approval must be obtained before funds can be disbursed.

- Continuing Disclosure Compliance: The Finance Director or designee will ensure the City's annual financial statements and associated reports comply with the Securities and Exchange Commission Rule 15c2-12 by filing the required disclosures and notices of enumerated events for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB).

- Arbitrage Compliance for Tax-Exempt Debt: The use and investment of bond proceeds must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate rebate liabilities related to any bond issues, with rebates paid to the Federal Government every five years and as otherwise required by applicable provisions of the Internal Revenue Code and regulations. The Finance Director shall contract with a specialist to ensure that proceeds and investments are tracked in a manner that facilitates accurate complete calculations, and if necessary timely rebate payments.

- Compliance with Bond Covenants: In addition to financial disclosure and arbitrage, the City is also responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis.

- Annual Reporting Requirement: The City shall submit an annual report to the California Debt and Investment Advisory Commission (CDIAC) for any issue of debt for which it has submitted a report of final sale on or after January 21, 2017. The annual report shall comply with the requirements of Government Code Section 8855 and related regulations.

VIII. DEBT MANAGEMENT POLICY REVIEW

The Finance Director shall review this Debt Management Policy at a minimum of every five (5) years or as required by law and recommend any changes to the City Manager and City Council.