

## **Debt Management**

Public borrowing through lease-purchase agreements, general obligation (GO) bonds, revenue bonds,

certificates of participation (COP) or other legal debt instruments may be in the public's best interest.

However, the City will pursue policies that will not saddle the City and its residents with excessive public

debt and will carefully scrutinize any public borrowing proposals. Therefore, the City Council, City Manager

or other staff members must use debt in a wise and judicious manner. Where public borrowing is considered

appropriate by the City Council. It will be done in compliance with California law and in accordance with the

following policies:

**1.** Debt is limited to equipment purchases and major capital projects. It is not used for general operating

expenses. It is the policy of the City to maintain cash balances at a sufficient level for general operating costs (those items normally funded in the City's annual operating budget and having a

useful life of less than one year). Short-term securities may be issued in cases where the City's

normal cash flow has been disrupted as a result of natural disaster or unexpected delays in the receipt

of federal or state revenues.

**2.** The maturity date for any debt does not exceed the reasonable expected useful life of the equipment

or capital improvement being financed.

**3.** When practical, the City will develop, authorize, and issue revenue, special fee or other self-supporting

debt instruments instead of incurring long-term obligations payable from General Fund revenues.

**4.** Coverage for revenue bonds or special fee debt instruments shall be determined based on advice of

~~the City's Municipal Advisor, Bond Counsel and Underwriters in a manner to best align with the~~

~~City's financing goals of achieving the lowest cost of borrowing, financial flexibility and security~~

~~for bond owners.~~

~~5. The City will maintain good communication with the public and City Council regarding its financial~~

~~condition.~~

~~6. The City will regularly evaluate its adherence to its debt policies. The City will promote effective~~

~~communications with bond rating agencies and others in the bond marketplace based on full disclosure.~~

~~7. The City will adhere to its Beaumont amended and restated disclosure procedures.~~

~~To the extent feasible, debt issuances will be packaged and planned to minimize issuance fees and interest~~

~~rates.~~

## **Debt Policy**

### **GENERAL POLICY GUIDELINES**

#### **INTRODUCTION**

The following policy is enacted in an effort to standardize the issuance and management of debt by the City of Beaumont and its component units. The primary objective is to establish conditions for the use of debt, to minimize the City's Debt Service requirements and cost of issuance, to retain the highest practical credit rating, to maintain full and complete financial disclosure and reporting, and to maintain financial flexibility for the City. The policies apply to all debt issued by the City and its component units.

Regularly updated debt policies are an important tool to ensure the use of the City's resources to meet its commitments, to meet the needs of the citizens of Beaumont and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions in extraordinary conditions.

#### **LONG RANGE FINANCIAL PLANNING AND INTEGRATION WITH CAPITAL IMPROVEMENT PROGRAM**

The City shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying

particular attention to financing priorities, capital outlays and competing projects. Long-term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the City shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. The issuance of debt to fund operating deficits is not permitted. The issuance of short-term cash-flow instruments is excluded from this limitation.

The City's Capital Improvement Program is a multi-year financial planning and management tool that identifies public facility and equipment requirements. It identifies a full range of capital needs, provides for the ranking of the importance of such needs, and identifies the funding sources that are available to cover the costs of the projects. When the CIP identifies project funding through the use of debt financing, financial analyses and projections will have already been completed which demonstrate the feasibility of issuing the debt. The City Manager will evaluate capital project requests and recommend the CIP to the City Council for approval.

The City may consider financing the capital needs of its revenue-producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing such debt, the City will develop financial plans and projections showing the feasibility of the financing, including an analysis of the required rates and charges needed to support the financing and the impact on ratepayers, property owners and other affected parties.

The City will use the following criteria to evaluate pay-as-you-go financing:

1. Current revenues and adequate fund balances are available so project phasing can be accomplished.
2. Existing debt levels adversely affect the City's credit rating.
3. Market conditions are unstable or present difficulties in marketing debt instruments.

The City will use the following criteria to evaluate long-term financing:

1. Revenues designated as security for Debt Service are deemed to be sufficient and reliable so that long-term financing can be marketed with investment grade credit ratings.
2. The project securing the financing is of the type that will support an investment grade credit rating, except Private Placements and Equipment Leases which are not rated.
3. Market conditions present favorable interest rates and demand for City financing.
4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.
5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
6. The life of the project or asset to be financed will exceed the term of the debt.

## **DEBT LIMITS**

The City will keep outstanding debt within the limits prescribed by State of California statutes and at levels consistent with credit objectives. There is no statutory restriction on the amount of revenue bonds that can be outstanding at any given time. However, each proposed financing will be individually assessed by the Finance Director and subject to the approval of the City Council.

## **DEBT STRUCTURE**

The City will normally issue debt with an average term of 25-30 years or less. The structure should approximate level debt service for the term where it is practical. Debt will be structured in such a way as to avoid increasing debt service payments in subsequent years, with the exception of the first and second year of a debt payoff schedule. Variable rate debt may be considered for utility debt when determined to be in the best interest of the City. There will always be at least interest paid in the first fiscal year after debt issuance and principal starting no later than the second fiscal year. Capitalized Interest will not be for a period of more than one year except for a City initiated project where the construction period exceeds one year.

## **CREDIT OBJECTIVES**

The City of Beaumont seeks to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic City services and achievement of City policy objectives. Accordingly, the City seeks to achieve a rating no lower than investment grade and, for obligations of the City or its component units, the target optimal rating is A from a Nationally Recognized Statistical Ratings Organizations (NRSRO).

The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within its control are prudent and well planned.

The City may seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when it proves cost-effective or provides additional security for the payment of debt service. Generally, when practical, selection of credit enhancement providers will be subject to a competitive process developed by the Finance Director. Credit enhancement may be used to improve or establish a credit rating on a City debt or to provide supplemental security for debt service on non-City debt as long as the use of such credit enhancement meets the City's debt financing goals and objectives.

## **REFUNDING DEBT**

Periodic reviews of all outstanding debt will be undertaken by the Finance Director and the City's Municipal Advisor to determine refunding (refinancing) opportunities.

The purpose of the refinancing may be to:

1. Achieve or monetize Debt Service savings.
2. Update or revise covenants on an outstanding debt issue.
3. Restructure Debt Service associated with an issue.
4. Alter debt characteristics such as call provisions or payment dates.

Generally, the City will strive to achieve a minimum of three percent (3%) net present value savings of the refunded Bonds, net of issuance costs and any cash contributions in the case where the primary objective of the refinancing is to achieve debt service savings. A higher minimum threshold of five percent (5%) for savings in the case of advance refunding.

## **COSTS AND FEES**

All costs and fees related to the issuance of debt will be paid out of debt proceeds. An amount will be determined at the time of the issuance to reimburse the City for costs incurred based on the time factors and complexity of the issue. Where applicable, the annual, recurring costs to the City of administering the debt are charged to the appropriate Debt Service, Enterprise or Agency fund.

## **METHOD OF DEBT OFFERING**

The City shall evaluate the best method of sale for each proposed bond issue.

1. Competitive sale. In a competitive sale, bids for the purchase of the bonds are coordinated with the City's Municipal Advisor who assists in awarding to an underwriter whose confirming bid represents the lowest true interest cost to the City.
2. Negotiated sale. When a negotiated sale is deemed advantageous in consultation with the City's Municipal Advisor, the Finance Director shall negotiate the most competitive pricing on debt issues and underwriter discounts in order to ensure the best value to the City. In a negotiated sale, the underwriter may be selected based on a formal RFP process. The City, with the assistance of its Municipal Advisor, shall evaluate the RFP on prices, interest rates, fees, and discounts. Criteria for selection will be determined on a case-by-case basis. No debt issue will be sold on a negotiated basis without an independent municipal advisor.
3. Private placement. In certain instances, the City may determine to utilize private placements or offerings to specially defined or otherwise limited investor types, but will only do so in the absence of other avenues for acquiring the required capital in a more cost-effective manner or in instances where the purpose is determined to be of significant strategic importance to the City. Any and all private placement offerings which do not include a private placement memorandum (executed by the City) in compliance with Securities and Exchange Commission Rule 15c2-12 prepared by counsel delivery, a 10b5 Opinion, shall require the purchaser(s) to each deliver a "Sophisticated Investor Letter" prepared in a form acceptable to the City's bond counsel where the buyer(s) represent they have completed their own due diligence regarding the investment, have not relied on information provided by the City except as explicitly stipulated therein, and are able and qualified to purchase without an official statement or disclosure document prepared in compliance with federal and/or state securities laws. The City's Municipal Advisor should provide the City with an analysis comparing a public offering to a placement to determine which method is most economical.

## **TYPES OF DEBT FINANCING**

### **GENERAL OBLIGATION BONDS**

The City may issue general obligation bonds for essential projects where there is no other funding source available to meet project costs. The following criteria will be used to evaluate the financing:

1. The likelihood of obtaining voter approval of the debt has been researched and determined to be optimistic.
2. The project is essential to meet or relieve capacity needs and no other resources are available to finance it.
3. The project has been presented to City Council either through the CIP or through regular council reports. The useful life of the project or asset to be financed is at least equal to the term of the Bonds to be issued.

When issuing debt, the City shall strive to use special assessment, revenue, or other self-

supporting bonds in lieu of general obligation bonds.

## **MUNICIPAL NOTES**

The City Council may authorize the issuance of municipal notes as an interim financing mechanism in anticipation of future revenues at the recommendation of the Finance Director. Types of such notes could include, but are not limited to, Tax Anticipation Notes, Revenue Anticipation Notes, Bond Anticipation Notes, or Grant Anticipation Notes.

## **REVENUE BONDS**

The City Council may authorize the issuance of Revenue Bonds as a means of financing capital facilities. The following criteria will be used to evaluate the financing:

1. Revenues available for Debt Service are deemed to be sufficient and reliable so that the bonds can be marketed with investment grade credit ratings. Where appropriate, revenues for the term of the bonds shall be projected or confirmed by an independent revenue consultant selected in the sole discretion of the City.
2. The project securing the financing is of the type that will support an investment grade credit rating.
3. Market conditions present favorable interest rates and demand for City financing.
4. The project has been presented to City Council either through the CIP or through regular council reports.
5. The project is essential to meet or relieve capacity needs and current resources are insufficient or unavailable.
6. The useful life of the project or asset to be financed is at least equal to the term of the Bonds to be issued.

These types of obligations are often structured as Utility Revenue Bonds, Lease Revenue Bonds or Certificates of Participation (COP's). If so structured, debt service shall not exceed the fair rental value of the leased asset for the term of the lease.

## **INTERFUND LOANS**

From time to time, interfund borrowings may be necessary from one fund to another fund that is experiencing a temporary cash shortage. Under generally accepted accounting principles (GAAP), funds that are not included in the non-spendable, restricted, or committed fund balance may make temporary loans to other funds.

Interfund loans are categorized into two types:

1. Cash advances at the end of the fiscal year to remove negative cash balance for special revenue funds. Many special revenue funds that account for grant funded projects experience negative cash balance at the end of the fiscal year due to the timing on grant funding. The negative cash situation will be resolved when grant reimbursement is received. The Finance Director is authorized to approve cash advances from the General Fund to the special revenue funds under this circumstance.
2. Interfund loans that provide for advance spending for a capital project or debt repayment. Such loans must be approved by the City Council.

Interest will be paid by the borrowing fund to the lending fund, during the time the loan is outstanding. The rate is determined by the Finance Director on a case-by-case basis.

These interfund loans typically have an approved repayment schedule; however, earlier repayment of the debt may occur based on available monies in the borrowing fund and approval of the Finance Director.

Interfund loans shall not hinder the accomplishment of any function or project for which the lending fund was established.