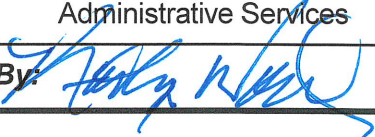




## POLICY AND PROCEDURE

<b>Subject:</b> Debt Management Policy	<b>Index:</b> Finance <b>Number:</b> 204-6
<b>Effective Date:</b> May 18, 2021	<b>Prepared By:</b> Finance and Administrative Services
	<b>Approved By:</b> 

### I. PURPOSE

The purpose of this Debt Management Policy ("Policy") is to organize and formalize debt issuance and management related policies and procedures for the City of San Clemente (the "City"). The debt policies and procedures of the City are subject to and limited by applicable provisions of State of California ("State") and federal law and to prudent debt management principles.

### II. SCOPE

This Policy is intended to comply with State Government Code Section 8855(i), which became effective on January 1, 2017, and will apply to all future debt considerations and issuances by the City or for which the City Council of the City ("City Council") acts as the legislative body of other legal entities.

### III. OBJECTIVE

The primary objectives of the City's debt and financing related activities are to:

- Maintain cost-effective access to the capital markets through prudent fiscal management policies and practices;
- Judicious debt service commitments will be made through effective planning and cash management;
- Ensure compliance with all applicable federal and state securities laws;
- Achieve the highest practical credit ratings within the context of the City's financing needs and financing capabilities;
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the City; and
- Ensure that the City's debt is consistent with the City's planning goals and objectives and capital improvement program or budget, as applicable.

#### **IV. ASSIGNMENT OF RESPONSIBILITY**

This Policy will govern the issuance and management of all future debt issued by the City. This Policy will be reviewed and updated periodically as necessary. Any changes to the Policy will be approved by the City Council. The City Council is responsible for overall policy direction of this Policy, as well as the authorization of each debt financing. The Financial Services Officer will be responsible for implementation of the Policy, as well as its day-to-day administration.

The City recognizes that, while this Policy provides guidance and structure for the decisions and management of the City's debt, changes in capital markets, City programs and other unforeseen circumstances may arise that are not addressed in this Policy. In these cases, flexibility is appropriate and modifications or exceptions to this Policy may be necessary to achieve the City's goals. Minor modifications or exceptions may be made by the Financial Services Manager without approval by City Council. Significant modifications or exceptions will be approved by City Council.

#### **V. DEBT ISSUANCE**

##### **1. Purpose of Debt Issuance**

The City's debt management program will consider debt issuance in cases where public policy, generational equity and economic efficiency provide a benefit to the residents of the City.

The City will utilize debt obligations and will give due consideration to all available funding sources, including available cash reserves, available current revenues, potential future revenue sources, potential grants, and all other financing sources legally available to be used for such purposes. Expenditure of bond proceeds are expected to fund major, non-recurring expenditures/expenses, including but not limited to: the financing of costs related to capital project planning and design, environmental, land acquisition, real property, and equipment acquisition; the construction or renovation of buildings and permanent structures; financing costs related to the debt issuance, capitalized interest, necessary or financially prudent debt service reserves; or other costs as permitted by law. Refunding or refinancing existing debt obligations are acceptable uses of bond proceeds.

##### **2. Types of Debt**

The City will evaluate the use of appropriate financing tools available as permitted by the State Constitution and applicable State statutes. These financing tools will be considered in order to secure the most cost advantageous financing available while limiting the City's risk exposure. Types of debt may include, but are not limited to:

- Lease revenue bonds
- Certificates of participation
- Revenue bonds
- Land-secured financing, such as special tax bonds and assessment bonds
- General obligation bonds
- Tax increment financing
- Conduit financing, such as financing for affordable rental housing and qualified 501(c)(3) organizations
- Refunding/refinancing existing debt obligations
- Short term notes
- Lease-purchase transactions
- Letters of credit and revolving credit

The City will also consider the advantages of a negotiated or competitive bond sale and recognizes that a standard, all-purpose approach to debt financing does not serve the best interest of the City. The City will consider the unique combination of factors such as the type of debt needed, funding stream, market conditions and City programs to structure each debt issuance.

### **3. Debt Structuring Practices**

The maximum term of any debt issuance will not exceed the useful life of the assets funded from the financing. Capitalized interest and deferral of principal may be considered but not required during construction of a debt-funded project. Fixed rate debt is preferred, but the City may consider the appropriateness of variable rate debt when considering financial market conditions and risk factors.

### **4. Financing Options**

In general, debt may be issued to fund new projects or to refinance existing debt.

#### **- New Debt**

New debt issuances are used to generate funding for capital projects. These funds will be used for necessary land acquisitions, capital construction, equipment, related financing costs, and other necessary costs that would deliver a project for the City.

- **Refinancing Existing Debt**

A periodic review of the City's outstanding debt will be undertaken by the Finance Division of the City's Finance & Administrative Services Department to determine refunding opportunities.

Refunding bonds are issued to retire all or a portion of an outstanding bond issue, typically to secure lower interest rates and to reduce overall debt service. Alternatively, some refundings are undertaken for reasons other than to achieve cost savings, such as to restructure debt service payments, to change the type of debt instruments being used, or to eliminate undesirable covenants.

A present value savings analysis will be prepared to identify the economic effects of any refunding being considered by the City. The savings from any refunding candidate shall generally be at least 3% of the refunded principal amount, net of all transaction expenses. This 3% savings target may be waived by the City upon a finding that such a refunding is in the City's best overall financial interest and shall not be applicable for refunding transactions that are not solely undertaken to achieve cost savings.

**5. Integration with City Capital Improvement Plan and Budgets**

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. In addition, the City maintains a General Plan as well as a multi-year Capital Improvement Program ("CIP") to establish and monitor priorities for projects. If debt is selected as a funding mechanism for a capital purpose, the City would integrate its debt issuances with the goals of the CIP by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes and in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund budget.

Debt issuances will be for the purposes stated in this Policy and to implement policy decisions incorporated through the City's annual operations budget as well as the CIP.

**6. Policy Goals**

The City is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. 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.

**7. Consultants**

The City will, when appropriate and given the specific requirements of the financing, secure the services of independent financial advisors, underwriters, disclosure counsel, bond counsel, appraisal services and other service providers.

**8. Investment of Bond Proceeds**

Bond proceeds will be invested according to the City's investment policy or the indenture of fiscal agent agreement, if applicable. The City will not invest bond proceeds derivatives unless the City adopts a separate comprehensive derivatives policy.

**9. Ongoing Administration and Internal Controls**

When issuing debt, in addition to complying with the terms of this Policy, the City will comply with any other applicable policies regarding initial disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The City will accurately account for all debt-related activity to ensure that debt proceeds are directed to their intended use. These records will also be designed to ensure that the City maintains compliance with all debt covenants, as well as State and federal laws. The City will maintain a system of reporting interest earnings that relates to and complies with Internal Revenue Code requirements relating to rebate, yield limits and arbitrage.

**10. Compliance**

**a. Initial Disclosure**

In accordance with California Government Code Section 8855 ("Section 8855"), the City will submit a report of final sale to the California Debt and Investment Advisory Commission, not later than 21 days following the sale of debt. A copy of the final official statement shall accompany the report of final sale for publicly offered debt. In the event that the official statement has not yet been finalized, the City will provide documentation to satisfy the requirements of Section 8855, as necessary.

**b. Ongoing Disclosure**

The City will maintain compliance with the regulations set forth in Section 8855 and Rule 15(c)2-12 under the Securities Exchange Act of 1934.

The City will file an annual report and annual financial information with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System (EMMA). The reports will be made timely and in accordance with the City's continuing disclosure undertakings.

The City will submit an annual report for any issue of debt whose final sale occurred on or after January 21, 2017. The annual report will cover the reporting period July through June 30 and will be submitted no later than seven months following the end of the reporting period.

**11. Adoption by Legislative Body**

In accordance with Section 8855, the City Council adopted this Policy. In implementing this Policy from time to time, interpretations and variations may be made at the discretion of the City Manager or Financial Services Officer, without approval of the City Council, as determined by such person to be in the best interests of the City or its citizens, and/or for purposes of administrative efficiency or convenience or to comply with new applicable federal, State, or local law.