



City Policy Manual

Policy No: B-14

Date: 4/5/17

Approved: City Council

**SUBJECT: DEBT MANAGEMENT POLICY**

**1. PURPOSE:** This Debt Management Policy (the “Policy”) sets forth debt management objectives and guidelines for the issuance and administration of debt and other financing obligations of the City of Indio and its related entities for which the governing body consists of the same individuals as the City Council of the City (including, but not limited to, the Indio Water Authority, the Successor Agency to the Indio Redevelopment Agency, the Indio Public Financing Authority, the Indio Finance Authority, and the Housing Authority of the City of Indio). As used in this Policy, “City” shall mean the City and/or the City and its related entities, as the context may require.

As used in this Policy, “debt” shall be interpreted broadly to mean bonds, notes, certificates of participation, financing leases, or other financing obligations, but the use of such term in this Policy shall be solely for convenience and shall not be interpreted to characterize any such obligation as an indebtedness or debt within the meaning of any constitutional debt limitation where the substance and terms of the obligation comport with exceptions thereto.

Prudent management of the City’s debt program is necessary to achieve cost-effective access to capital markets.

**2. SCOPE:** This Policy establishes the policies of the City of Indio and its related entities with respect to the issuance of debt.

**3. GENERAL POLICY:**

**Objectives:**

This section of the Policy sets forth certain equally important objectives for the City and establishes overall parameters for responsibly issuing and administering the City’s debt. Additionally, this Policy is intended to facilitate compliance by the City, and is consistent, with Section 8855(i) of the California Government Code as amended by SB 1029 (“SB 1029”), enacted as Chapter 307, Statutes of 2016.

- Minimize debt service and issuance costs
- Maintain access to cost-effective borrowing
- Achieve and maintain highest reasonable credit rating

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- Full and timely repayment of debt
- Maintain compliance with financial disclosure and reporting undertakings
- Ensure compliance with state and federal laws and regulations

## 4. RELATIONSHIP TO CAPITAL IMPROVEMENT PROGRAM OR BUDGET, PLANNING 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 and capital budgets and the City's five-year capital improvement plan. This Policy is intended to ensure that debt levels and their related annual costs will advance the City's planning goals and objectives.

## 5. GOVERNING AUTHORITY AND RESPONSIBILITY

Pursuant to the provisions of sections 37209 and 40805.5 of the Government Code of the State of California, 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 (subject to City Council approval, if required), 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.

The Finance Director or its designee will use the Request for Proposal (RFP) process to select various Financing Team Members. Below is a brief description of the main Financing Team, along with their functions, and the frequency of soliciting RFP's.

The typical Debt Financing Team consists of:

### **A. Financial Advisor**

- Assists with capital planning and long term financial planning.
- Coordinates the financing and debt issuance process.
- Helps evaluate underwriter proposals and provides financial analysis and recommendations.
- Assists with the securing of other professional services and other members of the financing team.
- Monitors and evaluates market conditions for opportunities to issue debt at low interest rates.
- Works with the City and underwriter to develop investor outreach and market approach.
- Manages competitive bid process.

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- Ensures negotiated prices are fair and reasonable in the marketplace.

Requests for Proposals for Financial Advisors should be done on a periodic basis not to exceed ten (10) years but is subject to review after four (4) years.

## **B. Bond Counsel**

- Prepare an approving legal opinion.
- Provide expert and objective legal opinion and advice.
- Prepare and review documents necessary to authorize, issue, sell and deliver the bonds, as well as coordination of the authorization and execution of closing documents.
- Review legal issues relating to the structure of the bond issue.
- Prepare election proceedings or pursue validation proceedings if necessary.
- Review or prepare those sections of the official statement that relate to the bonds, financing documents, bond counsel opinion, and tax exemption.
- Assists the City with presenting information to bond rating organizations and credit enhancement providers relating to legal issues affecting the issuance of the bonds.
- Review or prepare the Notice of Sale or Bond Purchase Contract for the bonds and review or draft the continuing disclosure undertaking of the City.
- Post-issuance advice for bond covenant compliance.

Requests for Proposals for Bond Counsel should be done on a periodic basis not to exceed ten (10) years but is subject to review after four (4) years.

## **C. Underwriter**

- Serves as the original purchaser of the bonds and assumes the risk of selling the bonds to the public.
- Provides the City with market knowledge.
- Assist with credit analysis and preparation.
- Premarketing of the bonds.
- Pricing and original purchase of bonds from the City.
- Sale to public market of the bonds.

Underwriter services should be solicited through a Request for Proposal (RFP) for every bond issue, or by developing a pool of pre-qualified underwriters from which to select.

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## **D. Placement Agent**

- Usually a registered underwriter acting in the more limited capacity of placement agent when a direct placement is used as the method of sale.
- Provides the City with proposed financial institutions eligible for direct purchase.
- Assist the City with requests for proposals for direct purchase by financial institutions.

Placement agent services should be solicited through a Request for Proposal (RFP) for every bond issue, or by developing a pool of pre-qualified underwriters/placement agents from which to select.

## **E. Trustee/Fiscal Agent/Paying Agent**

- Establishes and holds the funds and accounts relating to the bond issue.
- Maintains the list of names and addresses of all registered owners of the bonds and recordings of transfers and exchanges of the bonds.
- Acts as the authenticating agent.
- Acts as the paying agent.
- Protects the interests of the bondholders by monitoring compliance with covenants and acts on behalf of the bondholders in the event of default.
- As the escrow agent holds proceeds or the investments acquired with the proceeds of a refunding bond issue and uses those funds, or payments received on those investments, to pay debt service on the refunded bonds.

RFP's for Trustee services should be done on a periodic basis if the recurring Trustee fees increase excessively (in excess of the prevailing County of Riverside inflation rate).

## **6. TYPES OF DEBT**

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of this Policy and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure(s) is utilized, due diligence review must be performed for each transaction, including the quantification of potential risks and benefits, and analysis of the impact on City creditworthiness and debt affordability and capacity.

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Prior to the issuance of debt or other financing obligations to finance a project, the City will carefully consider the overall long-term affordability of the proposed debt issuance. The City shall not assume more debt or other financing obligations without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City will consider its long-term revenue and expenditure trends and the impact on operational flexibility. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and or maintain debt levels consistent with its current operating and capital needs.

The following are the types of debt the City could issue:

## **A. New Money Bonds**

New Money bonds are bonds issued to finance the cost of capital improvement projects or other large and extraordinary costs as approved by the City Council.

## **B. Refunding Bonds**

Refunding bonds are bonds issued to refinance (refund) previously issued outstanding debt. The City may issue refunding bonds to refinance the principal of and interest on outstanding bonds or other debt to achieve debt service savings, restructure scheduled debt service, convert from or to a variable or fixed interest rate, change or modify the source(s) of payment and security for the refunded debt, or modify covenants otherwise binding upon the City. Refunding bonds may be issued either on a current or advance basis. See also the "Refunding" subsection contained in Section 7 of this Policy.

## **C. Revenue Bonds and Certificates of Participation**

Revenue Bonds are generally issued by enterprise funds that are financially self-sustaining without the use of taxes and therefore rely on the revenues collected by the enterprise fund to repay the debt. Sometimes, Certificates of Participations ("COPs") are issued instead of revenue bonds, which in this case would typically be secured by an installment sale arrangement between the City and another public entity and by the revenues collected from the enterprise fund. Each COP represents a fractional share of an issuer's installment payment to be received by the investor.

## **D. Assessment Bonds**

The Improvement Bond Act of 1915 (Streets and Highways Code Section 8500 et seq.) allows the City to issue bonds to finance the "special benefit" improvements on the real property within its jurisdiction provided by the City. Assessment installments typically are collected through the secured property tax roll of the county.

## **E. Community Facilities District**

Mello-Roos is a form of financing for a variety of local agencies, including but not limited to cities and joint powers authorities. Mello-Roos Community Facilities

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Districts (referred to as "CFDs") raise money through special taxes that must be approved by 2/3rds of the voters within the district. While a CFD may be formed to finance public improvements and services within the district, bonds cannot be issued to pay for services financed through a CFD. The taxes are secured by a continuing lien and typically are levied annually against property within the district through the secured property tax roll of the county.

### **F. General Obligation (GO) Bonds**

In California, GO Bonds require a supermajority voter approval. GO Bonds are secured by a dedicated, voter-approved property tax override rate (*i.e.*, a property tax in excess of the 1% basic *ad valorem* property tax rate which has received the approving two-thirds vote of the City's electorate) in amounts sufficient to meet debt service requirements. While the dedicated revenue stream to repay the debt makes GO Bonds an attractive option, additional considerations for this financing mechanism include the time and expense of an election, the possibility that the electorate will not approve the ballot measure, and the legal bonding capacity limit for GO Bonds (for general law cities, 3.75% of the assessed value of all taxable property within the City as of the adoption date of this Policy).

### **G. General Fund-Supported Debt**

General Fund Supported Debt generally includes Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) that are lease obligations secured by a lease-back arrangement between the City and another public entity. Typically, the City appropriates available General Fund moneys to pay the lease payments to the other public entity and, in turn, the public entity uses such lease payments received to pay debt service on the bonds or COPs.

General Fund Supported Debt may also include bonds issued to refund obligations imposed by law, such as judgments (judgment obligation bonds (JOBs)) or unfunded accrued actuarial liabilities for pension plans (pension obligation bonds (POBs)).

These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The lessee (City) is obligated to include in its annual budget and appropriate the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

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## **H. Tax Increment Financing**

Tax Increment Financing is a financing method whereby a portion of *ad valorem* property taxes (commonly called the “tax increment”) is allocated to an entity, such as a successor agency to redevelopment agency (Successor Agency), an enhanced infrastructure financing district (EIFD), or a community revitalization and investment authority (CRIA), and the entity is permitted to incur debt payable from and secured by the tax increment revenues. While tax increment debt for redevelopment agencies and Successor Agencies is entitled to the benefits of Article XVI, Section 16, of the California Constitution, no similar provision exists for EIFDs and CRIsAs at the time of adoption of this Policy. Therefore, when considering EIFD or CRIA financing, or other types of tax increment financing which may be permitted by law in the future, debt limit concerns should be analyzed with respect to the proposed structure and taken into account in determining the practical viability of the proposed financing.

## **I. Fixed vs. Variable Rate Debt**

Fixed interest rate debt is typically preferred to maintain a more predictable debt service burden.

Variable rate debt obligations (“VRDOs”) can be utilized on a limited basis when the potential advantages of capturing the lowest interest rates available in the current market outweigh forecasted risks (including interest rate risk, remarketing risk, liquidity risk, and risk of expiration of credit support instruments prior to the final maturity of the VRDOs).

VRDO’s with a long maturity can be priced as short-term instruments making it potentially a less costly option in a normal upward sloping yield curve environment. Predetermined intervals are set where the rate can be reset to current market conditions.

While VRDOs sometimes can provide a lower cost of borrowing in the short run, they generally involve greater medium-term or long-term risk. Due diligence review must be performed for each transaction, including the quantification of potential risks and benefits, analysis of the impact on City creditworthiness and debt affordability and capacity, and an evaluation of the ability of the City to withstand the medium-term or long-term risk attendant to VRDOs, including the feasibility of exit strategies.

## **J. Derivative Products**

The use of certain derivative products, such as interest rate swaps, may be considered to hedge the some of the risks of VRDOs, to the extent the City has such debt outstanding or under consideration. The City will exercise extreme caution in the use of derivative instruments for hedging purposes, and will consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed. A

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comprehensive derivative policy will be adopted by the City prior to any utilization of such instruments.

## **K. Conduit Debt**

Conduit financing provides for the issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. 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 policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's faith and credit.

## **7. PURPOSE OF DEBT**

**Long-term Debt** – Long-term debt may be used to finance the purchase or improvement of land, infrastructure, facilities or equipment when it is appropriate to spread these costs over more than one budget year. Long-term debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing related costs which may be legally capitalized. Long-term debt may not be used to fund City operating costs.

**Short-term Debt** - Short-term debt, such as notes, commercial paper, and lines of credit, will be studied as an interim source of funding in anticipation of long term borrowing. Short-term debt may be issued for the same purpose as long-term debt, including capitalized interest and other financing related costs. In addition, short-term debt borrowing may be considered to address justifiable cash flow requirements to meet short-term operating needs to provide necessary public services, subject to applicable restrictions in California law.

**Refunding** – Periodic reviews of existing debt will be undertaken to identify refunding opportunities. Refunding will be considered (within state law and federal tax law constraints) if and when there is a net benefit of the refunding. Non-economic refunding may be considered to achieve City goals relating to changes in covenants, call provisions, operational flexibility, tax status, or the debt service profile. The City may purchase its bonds in the open market for the purpose of retiring the obligation when the purchase is cost effective.

Except for instances in which a bullet payment or spike in debt service is being refinanced, the City will generally seek to achieve debt service savings which, on a net present value basis, are at least 3% of the debt being refinanced. Refundings which produce a net present value savings of less than 3% will be considered on a case-by-case basis. Notwithstanding the foregoing, a refunding of Successor Agency bonds



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shall be determined based on the requirements of Health and Safety Code Section 34177.5.

## 8. MANNER OF SALE

There are a number of market factors that will affect the success of a bond offering, and each should be carefully considered before selecting a method of sale. These factors include, but are not limited to, the following: 1) market perception of the City's credit quality, 2) interest rate volatility, 3) size of the proposed issue, 4) complexity of the proposed issue, and 5) competition with other issuers for investor interest (bond supply).

### Competitive Sales of Bonds

The terms and prices of the bonds are determined by the City, with the assistance of its financial advisor, through a bidding process by which the City publishes a notice of sale for the bonds, and interested underwriters submit bids for the respective terms upon which they propose to purchase the bonds. The sale is awarded to the underwriter judged to have submitted the best bid that offers the lowest interest rate, taking into account underwriting spread, interest rates and any discounts or premiums.

### Negotiated Sale of Bonds

A method of sale for bonds, notes, or other financing vehicles in which the City selects in advance, on the basis of proposals received or by other means, one of more underwriters to work with it in structuring, marketing and finally offering an issue to investors. The negotiated sale method is often used when the proposed debt is a first time sale by a particular issuer (a new credit), the issuer of the debt is a relatively small entity, the proposed debt involves a complex security structure, such as a variable rate transaction, the proposed debt is an unusually large issue, or in a highly volatile or congested market.

### Direct or Private Placement

A direct placement or private placement is a variation of a negotiated sale in which the City, with the help of a financial advisor and a placement agent, will attempt to place the entire new issue directly with an investor (typically, a financial institution). The investor will negotiate the specific terms and conditions of the financing before agreeing to purchase the issue. Direct or private placements are sometimes undertaken when the transaction is complex or unique, requiring direct negotiations with the investor, when market conditions indicate that a direct or private placement may result in a lower interest rate on the debt, or because the issue is small and a direct offering provides economies of scale.

## 9. PERFORMANCE STANDARDS

The City of Indio strives to maintain 'investment grade' ratings in the municipal market. Ratings assigned by a nationally-recognized statistical rating

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organization of “BBB” (or equivalent) or higher are considered investment grade (without regard to numerical or “+” or “-” modifiers within the “BBB” category).

## **9. MARKET RELATIONSHIPS**

The Finance Director will be responsible for maintaining relationships with investors, credit analysts, and rating agencies.

## **10. ON-GOING DEBT ADMINISTRATION**

The Finance Director will regularly review the City’s outstanding obligations, particularly in declining interest rate environments. When rates begin to approach levels at which refunding is cost-effective, the City shall select a financing team to begin preparations for a refunding issue.

### **Continuing Disclosure**

The Finance staff will ensure that the City’s annual financial statements and associated reports are posted on the City’s web site. The City will also contract with Consultant(s) to comply with its contractual undertakings entered into pursuant to the Securities and Exchange Commission Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders on the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board (MSRB).

### **Arbitrage Rebate Compliance and Reporting**

The use and investment of bond proceeds must be monitored to ensure compliance with applicable arbitrage restrictions. Existing regulations for tax-exempt debt 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.

## **11. INTERNAL CONTROL PROCEDURES REGARDING USE OF DEBT PROCEEDS**

One of the City’s priorities in the management of debt is to assure that the proceeds of the debt will be directed to the intended use for which the debt has been issued. In furtherance of this priority, the following procedures shall apply:

- A. The Finance Director shall retain a copy of each annual report filed with the California Debt and Investment Advisory Commission (CDIAC) pursuant to Section 8855(k) of the California Government Code concerning (1) debt authorized during the applicable reporting period (whether issued or not), (2) debt outstanding during the reporting period, and (3) the use during the reporting period of proceeds of issued debt.
- B. In connection with the preparation of each annual report to be filed with CDIAC pursuant to Section 8855(k) of the California Government Code, the

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Finance Director or the designee of the Finance Director shall keep a record of the original intended use for which the debt has been issued, and indicate whether the proceeds spent during the applicable one-year reporting period for such annual report comport with the intended use (at the time of original issuance or as modified pursuant to the following sentence). If a change in intended use has been authorized subsequent to the original issuance of the debt, the Finance Director or the designee of the Finance Director shall indicate in the record when the change in use was authorized and whether the City Council, City Manager, or another City official has authorized the change in intended use. The Finance Director shall report apparent deviations from the intended use in debt proceeds to the City Manager for further discussion, and if the City Manager determines appropriate in consultation with legal counsel (which may be bond counsel, if applicable, or the City Attorney), to the City Council.

- C. If the debt has been issued to finance a capital project and the project timeline or scope of project has changed in a way that all or a portion of the debt proceeds cannot be expended on the original project, the Finance Director shall consult with the City Manager and legal counsel (which may be bond counsel, if applicable, or the City Attorney) as to available alternatives for the expenditure of the remaining debt proceeds (including prepayment of the debt. If deemed advisable by the City Manager after such consultation, direction of the City Council may be sought as to an alternative for the expenditure or use of such remaining debt proceeds.

### 12. SB 1029 COMPLIANCE

Senate Bill 1029 requires issuers to adopt debt policies addressing each of the five items below:

- A. *The purposes for which the debt proceeds may be used.*

Section 4 (Relationship to Capital Improvement Program or Budget, Planning Goals and Objectives) and Section 7 (Purpose of Debt) address the purposes for which debt proceeds may be used.

- B. *The types of debt that may be issued.*

Section 6 (Types of Debt) provides 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.*

Section 4 (Relationship to Capital Improvement Program or Budget, Planning Goals and Objectives) provides information regarding the relationship between the City's debt and capital improvement plan and operations and capital budgets.

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*D. Policy goals related to the issuer's planning goals and objectives.*

As described in Section 3 (General Policy), Section 4 (Relationship to Capital Improvement Program or Budget, Planning Goals and Objectives) and other sections, this Policy has been adopted to assist with the City's goals of responsibly issuing and administering the City's debt, long-term financial planning, maintaining appropriate reserve levels, and employing prudent practices in governance, management, and budget administration.

*E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.*

Section 11 (Internal Control Procedures Regarding Use of Debt Proceeds) provides information regarding the City's internal control procedures designed to ensure that the proceeds of its debt issues are spent as intended.

### **13. DEBT MANAGEMENT POLICY REVIEW**

The Finance Director shall review this Policy at a minimum of every five (5) years and recommend any changes to the City Manager and City Council.