RESOLUTION NO. 17-094

A RESOLUTION OF THE COUNCIL OF THE CITY OF SANTA BARBARA ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, Senate Bill 1029, signed by the California Governor on September 12, 2016, effective on January 1, 2017, amended California Government Code Section 8855 to require that prior to the sale of public debt, California public agencies must certify to the California Debt and Investment Advisory Commission (CDIAC) that the issuer has adopted local debt policies;

WHEREAS, the certification on the CDIAC report must provide that the agency has adopted local debt policies concerning the use of debt and that the proposed debt issuance is consistent with those adopted policies;

WHEREAS, as required by Government Code section 8855(i), a local debt policy must include five elements: (1) the purposes for which the debt proceeds may be used; (2) the types of debt that may be issued; (3) the relationship of the debt to, and integration with, the issuer's capital improvement program or budget; (4) policy goals related to the issuer's planning goals and objectives; and (5) the internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issue with be directed to the intended use; and

WHEREAS, the Debt Management Policy, attached hereto as Exhibit "A," contains the five elements required by Government Code 8855(i).

NOW, THEREFORE, THE CITY OF SANTA BARBARA DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. The above recitations are true and correct.

SECTION 2. The Debt Management Policy, attached hereto as Exhibit "A" and incorporated herein by this reference, is hereby adopted.

SECTION 3. The Finance Director, or his or her designee, is directed to implement the Debt Management Policy as directed therein.

SECTION 4. The Finance Director, or designee, shall also implement the Debt Management Policy on behalf of the Santa Barbara Financing Authority and the Successor Agency to the Redevelopment Agency of the City of Santa Barbara for whom the City manages debt.

SECTION 5. This Resolution shall take effective on the date of its passage and adoption.

EXHIBIT A

CITY OF SANTA BARBARA

DEBT MANAGEMENT POLICY

A. PURPOSE

The purpose of this policy is to establish guidelines and parameters for the effective governance, management and administration of City debt.

B. BACKGROUND

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

Debt and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined thoughtful approach to debt management includes policies that provide guidelines for the City to manage its debt program in line with those resources. Therefore, the objective of this policy is to provide written guidelines and restrictions concerning the amount and type of debt issued by the City and the ongoing management of the debt portfolio.

This debt management policy is intended to improve the quality of decisions to ensure that its long-term financing commitments are affordable and do not create undue risk or burden; provide justification for the structure of debt issuance in order to protect both current and future taxpayers and ratepayers; identify policy goals; and demonstrate a commitment to long-term financial planning, including a multi-year capital plan.

C. CONDITIONS AND PURPOSES OF DEBT ISSUANCE

1. Acceptable Conditions for the Use of Debt

The City believes that prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs of the City. Debt will be considered to finance such projects if it meets one or more of the following criteria:

a) It meets the City's goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents.

b) The need for the project is compelling in terms of on-going cost savings or the needs for public safety or services; and the size of the project makes funding out of existing resources or near-term revenues is impractical.

c) All other financing alternatives, including pay-as-you-go funding, proceeds derived from development or redevelopment of existing land and capital assets owned by the City, and use of existing or future cash reserves, or combinations thereof, have been evaluated and considered.

2. Acceptable Uses of Debt

The City will consider financing for the acquisition, substantial refurbishment, replacement or expansion of physical assets, including land improvements. The primary purpose of debt is to finance one of the following:

a) Acquisition and or improvement of land, right-of-way or long-term easements.
b) Acquisition of a capital asset with a useful life of 3 or more years.
c) Construction or reconstruction of a facility.
d) Refunding, refinancing, or restructuring debt, subject to refunding objectives and parameters discussed in Section G.
e) Although not the primary purpose of the financing effort, project reimbursables that include project planning design, engineering and other preconstruction efforts; project-associated furniture fixtures and equipment; capitalized interest, original issuer's discount, underwriter's discount and other costs of issuance.
f) Interim or cash flow financing, such as anticipation notes.

3. Prohibited Uses of Debt

Prohibited uses of debt include the following:

a) Financing of operating costs except for anticipation notes with a term of less than one year.
b) Debt issuance, including for capital costs or pension obligations, used to address budgetary deficits.
c) Debt issued for periods exceeding the useful life of the asset or projects to be financed.

D. TYPES OF DEBT

The following is a description of the types of long-term debt the City may issue:

1. General Obligation Bonds

General Obligation (GO) bonds are secured by a levy of additional ad valorem property taxes to pay debt service. GO bonds are serviced out of new tax revenues, and usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk.

California State Constitution, Article 16 - Public Finance, Section 18, requires that the issuance of a GO bond by the City must be approved by a two-thirds majority of those voting on the bond proposition. Uses of bond proceeds are limited to the acquisition and improvement of real property.

2. Lease Obligations

Lease financings are long-term obligations that include Lease Revenue Bonds (LRBs) and Certificates of Participation (COPs). Lease financings are obligations secured by a lease-back arrangement between the City and the City's Public Financing Authority, a joint powers authority. The lease payments are an obligation of the City's General Fund, although other revenues may actually be used to make the payments. The lease payments are, in turn, used to pay debt service on the LRBs or COPs.

The State Supreme Court has determined under a number of decisions that these lease 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 governmental lessee is obligated to place in its annual budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

3. Revenue Bonds

Revenue bonds are obligations payable from revenues generated by an enterprise or, occasionally, of a non-enterprise special fund. Various California court decisions have determined that obligations secured by enterprise and other special fund revenues are not "indebtedness" subject to voter approval.

The City's utility Revenue Bonds are payable solely from the appropriate City Enterprise Fund and are not secured by any pledge of ad valorem taxes or General Fund revenues of the City. In accordance with the agreed upon bond covenants, the revenues generated by these Enterprise Funds must be sufficient to maintain required coverage levels, or the customer rates of the enterprise have to be raised to maintain the coverages. General State law and practices allow for the issuance of such Enterprise Revenue bonds without voter approval, which has been the City's practice.

4. Assessment and Mello-Roos Special Tax Bonds

The City can form assessment districts, with majority property-owner approval, to finance projects that provide special benefit to the property and its owners. Similarly, property owners of undeveloped land can approve Mello-Roos special taxes to finance public improvements. At the time any such debt is considered in the future, specific land-secured policies should be drafted for Council consideration, consistent with State law (required for Mello-Roos districts) and best practices.

5. State Loans

Low interest loans are typically offered by the State of California, including the Department of Health Services and the State Water Resources Control Board. State loans would be considered based on lower interest rates, taking into account other requirements such as reserves, term of repayment, and the compatibility of the loan with other outstanding City obligations.

6. Inter-Fund Borrowing

The City may borrow internally from other funds with temporarily surplus cash to meet short-term needs in lieu of issuing debt. Such purposes could include short-term cash flow imbalances due to grant terms (i.e., the need to incur costs prior to reimbursement) and interim financing pending the issuance of bonds. The City funds from which the money is borrowed shall be repaid with interest, accruing monthly based upon the average earnings rate of the City's investment pool. To the extent any inter-fund borrowing is undertaken as a form of bond anticipation financing, the City will adopt a resolution of its intention to repay such funds out of tax-exempt bond proceeds, so as to meet the requirements of federal tax law for such borrowings.

E. BANK LOANS

Under certain circumstances, it may be advantageous to obtain financing through a direct bank loan, rather than through the issuance of bonds in the public market. Bank loans can be in the form of fixed rate or variable rate loans with defined repayment schedules or lines of credit that have variable interest rates and flexible payment provisions. One potential advantage of bank loans is that the process for execution is generally simpler and can be less expensive to issue than a public bond issue due to the more limited disclosure requirements and the lack of ratings. Additionally, a bank loan can often be structured in a manner that more closely conforms to specific project or repayment considerations than a bond issue. However, since bank loans are issued in an environment less transparent than a public debt issue, it is more difficult to assess how the proposed loan rates, fees, and terms compare to the market. The City Finance Director will consult with the City's Financial Advisor to determine when a bank loan is the appropriate financing measure.

F. USE OF ALTERNATIVE DEBT INSTRUMENTS

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 the Debt 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.

G. REFUNDING GUIDELINES

The Finance Director shall monitor at least annually all outstanding City debt obligations for potential refinancing opportunities. The City will consider refinancing of outstanding debt to achieve annual savings. Except when required to meet overall debt management goals, any refinancing should not result in any increase to the weighted average life of the refinanced debt.

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. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

Any potential refinancing executed more than 90 days in advance of the outstanding debt optional call date (an "advance refunding") shall require a higher savings threshold. Consideration of this method of refinancing shall place greater emphasis on determining whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

H. MARKET COMMUNICATION, ADMINISTRATION, AND REPORTING

1. Rating Agency Relations and Annual or Ongoing Surveillance

The City will strive to maintain the highest possible credit ratings consistent with its current operating and capital needs in order to minimize its borrowing cost.
The Finance Director shall be responsible for maintaining the City's relationships with agencies rating the City's obligations (e.g., Standard & Poor's Ratings Services and Moody's Investor's Service). The City is committed to maintaining, if not improving, its existing rating levels. In addition to general communication, the Finance Director shall:

a) Ensure the rating agencies are provided updated financial information of the City as it becomes publicly available.
b) Communicate with credit analysts at each agency at least once each year, or as may be requested by the agencies.

c) Prior to each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the City's financial position, including the impacts of the proposed debt issuance.

2. Council and Finance Committee Communication

The Finance Director should report material feedback from rating agencies, when and if available, regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses as they pertain to maintaining the City's existing credit ratings.

3. Continuing Disclosure Compliance

The City shall remain in compliance with Security and Exchange Commission Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year, or as required in any such agreement for any debt issue. The City shall maintain a log or file evidencing that all continuing disclosure filings have been made promptly.

4. Debt Issue Record-Keeping

A copy of all debt-related records shall be retained at the City's offices. At minimum, these records shall include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each City financing (to the extent available).

5. Arbitrage Rebate

The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Finance Director shall ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

I. AFFORDABILITY

Prior to the issuance of debt 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 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, the impact on operational flexibility and the overall debt burden on the tax payers. 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 Finance Director shall review benchmarking results of other California cities of comparable size with the City's Finance Committee prior to any significant project financing.

1. General Fund-Supported Debt

General Fund Supported Debt generally include Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) The general operating revenues of the City are committed to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation.

The City should strive to maintain its net General Fund-backed debt service at less than 10% of available annually budgeted revenue. This ratio is defined as the City's annual debt service requirements on Certificates of Participation and Lease Revenue Bonds compared to total General Fund revenues net of inter-fund transfers. This ratio, which pertains to only General Fund backed debt, is often referred to as "lease burden."

2. Revenue Bonds

Long-term obligations payable solely from specific pledged sources, in general, are not subject to a legal debt limitation, although prior bond documents will impose conditions on the issuance of additional debt. Examples of such long- term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (Enterprise Revenues) and revenues generated from a project.

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (gross revenues minus operating and maintenance expenses exclusive of depreciation, which is a non-cash related expense) to estimated annual debt service. The City should strive to maintain a coverage ratio of 125% using historical and/or projected net revenues to cover annual debt service for bonds. The City may require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

3. Special Districts Financing

The City's Special Districts primarily consist of Community Facilities Districts (CFDs) and 1913/1915 Act Assessment Districts (Assessment Districts). The City will consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Finance Department may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.

4. Conduit Debt

Conduit financing provides for the issuance of tax-exempt securities by a government agency to finance a project of a third party, such as a non-profit organization, Joint Powers Agency, 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. Often, these financings are conducted by State authorities or statewide joint powers authorities. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's revenues.

J. STRUCTURE OF DEBT

1. Term of Debt

Debt will be structured with the goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances. The standard term of long-term borrowing is typically 15-30 years.

2. Rapidity of Debt Payment

Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. The Finance Department will amortize debt through the most financially advantageous debt structure and to the extent possible, match the City's projected cash flow to the anticipated debt service payments. "Backloading" of debt service will be considered only when one or more of the following occur:

a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
c) Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
d) Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

3. Serial Bonds, Term Bonds, and Capital Appreciation Bonds

For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds (CABs) may be used. The decision to use term, serial, or CAB bonds is driven based on market conditions.

4. Relationship of Debt Issuance to Long-Term Planning and Capital Improvement Program

The City shall integrate its debt issuances with the goals of its capital improvement program and annual operating budget. The City will time the issuance of debt to ensure that funding for projects is available when needed and is in furtherance of the City's public purpose.

5. Internal Controls

Whenever reasonably possible, the proceeds of debt issuance will be held by a third-party trustee and the City will submit written requisitions for release of proceeds only after obtaining the signature of the Finance Director or his/her designee. In cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the Finance Director shall retain records of all expenditures of proceeds through the final payment date for the debt.

All investments of bond proceeds shall adhere to the City's Investment Policy.

RESOLUTION NO. 17-094

STATE OF CALIFORNIA)
)
COUNTY OF SANTA BARBARA) ss.
)
CITY OF SANTA BARBARA)

I HEREBY CERTIFY that the foregoing resolution was adopted by the Council of the City of Santa Barbara at a meeting held on September 19, 2017, by the following roll call vote:

AYES:	Councilmembers Jason Dominguez, Gregg Hart, Frank Hotchkiss, Cathy Murillo, Randy Rowse, Bendy White; Mayor Helene Schneider
NOES:	None
ABSENT:	None
ABSTENTIONS:	None

IN WITNESS WHEREOF, I have hereto set my hand and affixed the official seal of the City of Santa Barbara on September 20, 2017.

Sarah P. Gorman, CMC
City Clerk Services Manager

I HEREBY APPROVE the foregoing resolution on September 20, 2017.

Helene Schneider
Mayor