City of Santa Ana Administrative Policies and Procedures	Mayor's Authorization
Subject **Debt Management Policy**	Date February 6, 2018

PURPOSE

This Debt Policy ("policy") sets forth certain debt management objectives and establishes overall parameters for issuing and administering debt for which the City of Santa Ana ("City"), the Santa Ana Financing Authority ("Financing Authority") and/or the Successor Agency to the Santa Ana Redevelopment Agency (collectively, the "Santa Ana Issuers") are financially obligated or are responsible for managing. Included in this policy are general provisions related to: 1) debt limits, 2) debt structure, 3) debt issuance and 4) debt management, which are the four major categories addressed within this Policy.

This Policy shall be reviewed annually by the Executive Director of the Finance & Management Services Agency ("Finance") or his/her designee and updated as needed. Any changes to this Policy are subject to City Council approval.

This Debt Management Policy is intended to comply with California Government Code Section 8855(i), which requires municipalities that issue debt to develop and apply debt management policies to ensure that debt is issued and managed prudently.

DEBT POLICY OBJECTIVES

The following are general objectives that this policy intends to accomplish:

- Ensure that all debt issuance is in alignment with the City's Strategic Plan goals & objectives as well as the City's Capital Improvement Plan;
- Determine appropriate use of debt financing & the purpose of the debt;
- Establish parameters and specific limits for issuing debt;
- Identify financing options & types of debt that may be issued;
- Ensure cost-effective borrowing by minimizing debt service and issuance costs;
- Ensure compliance with applicable state and federal laws;
- Ensure full and timely repayment of debt service; and
- Maintain full and complete financial disclosure and reporting of debt.

All eight objectives are reflected within the four major categories: 1) debt limits, 2) debt structure, 3) debt issuance and 4) debt management.

DETERMINATION OF DEBT ISSUANCE

Prior to any issuance of debt, the requesting department and, when appropriate, the Finance & Management Services Agency ("Finance"), will conduct a comprehensive assessment to ensure the following criteria are met:

a) All debt must:

i. Be in alignment with the City's Strategic Plan goals & objectives as well as the City's Capital Improvement Plan;
ii. Promote an economic or public benefit;
iii. Provide for economic vitality;
iv. Lessen the burden of the City during economic uncertainties;
v. Not cause undue burden on the City's General Fund;
vi. Extend the useful life of existing assets.

b) Any prospective debt issuance must have an identified revenue source for repayment, which may include the general fund, enterprise funds, special revenue funds and/or community development funds;

c) A feasibility analysis will also be performed on the fund that has been identified as the source of repayment that includes determining:
   i. Operating Position (Gain/Loss: Operating revenues less Operating Expenditures);
   ii. Existing Fund Balance (unassigned/unrestricted) capacity for current and future years;
   iii. Debt Service Coverage; and
   iv. Future economic outlook (multi-year forecast or pro forma).

d) Evaluating any other material factors, including but not limited to:
   i. Risk of litigation or potential litigation;
   ii. Potential negative revenue and expenditure variances; and
   iii. Compliance to pertinent legislation.

Generally, there will be a recommendation to issue debt when: 1) the aforementioned assessment has been completed, 2) if current operational resources are insufficient to finance the project, and 3) when debt financing is the optimal structure given the City's long-term financial outlook.

When appropriate, Finance will evaluate the long-term impact of all outstanding and planned debt issuance on the City's finances. Such evaluation recognizes that the City has limited capacity for debt service in its budget and that each newly issued financing will obligate the City to a series of payments until the debt is repaid. Subsequent to the evaluation, Finance will provide a recommendation for the City Manager's consideration. The City Manager will make the determination to proceed with the issuance of debt, subject to City Council and, if necessary, voter approval.

DEBT LIMITS

Types of Financing Options and Use of Debt Proceeds

Once it has been determined that issuing debt is a viable and beneficial option, the Santa Ana Issuers can issue the following types of debt under this Policy subject to state and federal law, the City's Charter, City's Municipal Code and City Council Policy (as approved by the majority of the City Council), as may be applicable:

a) general obligation bonds (authorized by the affirmative votes of two-thirds (2/3) of the voters);
b) lease revenue bonds or notes;
c) certificates of participation;

d) land-secured financings, such as special tax revenue bonds and/or limited obligation assessment bonds;
e) tax increment financings to the extent permitted under state law;
f) private placement and/or private loan financing
g) conduit financings, whereby the City secures financing on behalf of a third party
h) financings for affordable housing (TEFRA) and qualified 501 (c) (3) organizations (access to tax-exempt financing); and
i) any other or new type of debt that is allowed under state or federal law.

Debt may be publicly issued or privately placed and may be issued on either a long-term basis ("Long-term Debt") or short-term basis ("Short-term Debt") consistent with the provisions of this Policy.

Long-term debt, defined as a final maturity date greater than five years from the issuance date, may be used to finance the acquisition or improvement of land, facilities, or equipment that cannot be financed from current revenues and is appropriate to spread the costs over more than one fiscal year, and will be reflected in the Adopted Citywide Budget as well as the Seven-Year Capital Improvement Plan ("CIP"), if applicable. Long-term debt may also be used to fund capitalized interest (for no longer than a three-year period), costs of issuance, required reserves, and any other financing-related costs which is legally permitted. Under no circumstance shall long-term debt be allowed to fund annual reoccurring operating costs or routine maintenance expenses.

Short-term debt, defined as a final maturity date less than five years from the issuance date, through financing vehicles will be considered as an interim source of funding for the acquisition of equipment, funding for a capital improvement in anticipation of long-term borrowing, or any other purpose in which issuing long-term debt is not a viable option, provided that there is sufficient reason to pursue a short-term debt issuance. Short-term debt may also be issued for capitalized interests and other financing-related costs. The final maturity of the debt issued to finance the project shall be consistent with the useful life of the project, unless it is determined that extraordinary circumstances exist. In addition, short-term debt may be considered if available cash is insufficient to meet short-term operating needs.

Debt Restrictions
The Santa Ana Issuers will keep outstanding debt within the limits of applicable federal and state law. Specifically and in accordance with section 602 of the City Charter, the Issuers' total general obligation bond indebtedness shall not exceed 10 percent of the "total assessed value of real property within the City". As such, the City will keep outstanding general obligation debt within the specified limits. The Successor Agency, in particular, will issue debt to refund its outstanding debt consistent with applicable law. More specifically, in the event that the City issues:

a. a general obligation bond: the debt service payments, in the aggregate, shall not exceed 10% of General Fund revenues;
b. a lease revenue bond or certificates of participation: the debt service payments shall be limited by a debt service coverage ratio (e.g., annual net pledged revenue to annual debt service) of at least a 2.00, preferably higher; as well as additional bond provisions contained in the bond covenants; and
c. a conduit debt: subject to approval based on the borrower's creditworthiness, purpose of the borrowing issue, and subject to a comprehensive review conducted by the City.

Furthermore, it is generally recommended that any costs of issuance associated with the debt shall not exceed 5% of the principal amount of the debt, unless it can be determined that the public benefit outweighs the cost.

DEBT STRUCTURE

All capital projects financed through the issuance of debt will be financed for a period not to exceed the useful life of the project. Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project and, consideration will be given, so that the maturity of the debt issue is consistent with the useful life of the capital project to be financed. Ultimately, however, market conditions at the time of sale will inform the City on its decision regarding debt service structure.

Certain types of financings such as certificates of participation and other lease-secured financings may require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. Interest rate shall not be funded (capitalized) beyond a three-year period, or a shorter period if further restricted by the governing bond documents. The City may require that capitalized interest on the initial series of the bonds be funded from the proceeds of the bonds.

Fixed and Variable Interest Rate

The Santa Ana Issuers can make a determination to utilize either a variable or fixed interest rate debt based on the market conditions. In general, in order to maintain a predictable debt service burden, the City shall give preference to debt that carries a fixed interest rate. However, the City may consider variable rate debt in certain instances, such as:

a) during a high interest rate environment;
b) if the source for repayment fluctuates, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability; and
c) if financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts

Moreover and in accordance with rating agency guidelines, the percentage of variable rate debt outstanding shall not exceed 20% of the City's total outstanding debt.

DEBT ISSUANCE

Service Providers

During the course of a debt issuance, the City must select several professional services providers. The Santa Ana Issuers will utilize the services of independent financial/municipal advisors, underwriters, and pertinent legal counsel on all debt financings as well as other parties depending on the type of financing. Additionally, the City will require that all providers have the highest ethical standards as it relates to their performance with no existing material or egregious legal grievances against them or pending investigations for the same. The City will require full disclosure of any history of grievances or legal proceedings against providers

The Santa Ana Issuers will strive to select service providers as necessary through a competitive bidding process. However, when appropriate, a sole-source selection may be allowed (i.e., timing of issuance, product & financing packaging). The overall goal is to achieve an appropriate balance between service and cost.

Methods of Sale

The Director of Finance shall also be responsible for determining the appropriate manner in which to offer any debt to investors, these include: competitive bid, negotiated sale and/or private placement, which will be considered on a case-by-case basis. The preference will be given to competitive sale method. In a competitive sale, the securities shall be awarded to the bidder providing the lowest interest cost as long as the bid adheres to the requirements set forth in the governing bond documents. In a negotiated sale, the City shall assess the following circumstances:

a) size of the issue which may limit the number of potential bidders
b) if market volatility is such that flexibility in timing the sale in changing interest rate environments is most beneficial for the City

Debt Refunding

The Finance Department shall also have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial/municipal advisory firms.

In general, the City hereby establishes a net present value threshold of a minimum of three percent (3%) of the refunded bond principal amount. The net present value savings shall be net of all costs related to refinancing. Refunding debt that produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refunding debt with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt. In conjunction with the required net present value threshold, any savings from a refunding debt shall be significantly greater than the cost of issuance.

DEBT MANAGEMENT

The Finance Department, in collaboration with the requesting department, will be responsible for managing and coordinating all activities related to the issuance and administration of debt, including, but not limited to:

a) investment of bond proceeds
    i. Investments of all bond proceeds or other forms of debt shall be consistent with federal tax requirements, any applicable state law requirements, the governing bond documents, and the City's Investment Policy as modified from time to time.
b) monitoring compliance with bond covenants;
c) implementing internal control procedures to ensure the use of bond proceeds will be directed to the intended use;
d) monitoring use of facilities financed with the issued debt;
e) continuing disclosure requirements;
f) monitoring arbitrage compliance; and
g) ongoing interactions with credit rating agencies

Continuing Disclosure

As a critical component to the debt management aspect, on June 21, 2016, the City Council adopted the "Municipal Securities Disclosure Policy & Procedures", which governs and outlines the initial and annual continuing disclosure process & requirements.

Records Retention

The Finance Department and other applicable departments, as may be necessary, will be responsible for maintaining the following documents for the term of debt issuance (including debt issued to refinance existing debt, if any):

a) a copy of the closing transcript (s) and other relevant documentation delivered to the City at or in connection with closing of the issuance;
b) a copy of all material documents relating to capital expenditures financed or refinanced by debt proceeds, including but not limited to: draw down requests and evidence as to the amount and date for each draw down, trustee requisitions, payment records, as well as documents relating to costs paid or reimbursed with the said proceeds

c) a copy of all contracts involving the use of debt-financed or refinanced assets

d) a copy of all records of investments, investment agreements, arbitrage reports, and underlying documents, including trustee statements and copies of all bidding documents, if any.