City of Sonoma
Debt Management Policy

1. Purpose

The City of Sonoma (City) and Successor Agency to the Sonoma Community Development Agency (the "City) establishes this Debt Management Policy (Policy) to provide clear and comprehensive guidelines for the issuance, management and administration of debt and other financing obligations issued by the City. This Debt Management Policy is intended to identify policy goals, support decision making, and demonstrate a commitment to long-term planning, including the City's Capital Improvement Program. Adherence to a Debt Management Policy helps to ensure the City's debt is issued and managed prudently in order to maintain a sound financial position and credit worthiness.

When used in this Debt Management Policy, "debt" refers to all indebtedness and financing obligations of the City. This policy is applicable to all entities for which the City Council acts as legislative body, and the term "City" shall refer to each of such entities.

2. Policy Objectives

This Debt Management Policy is intended to comply with the requirements of Senate Bill 1029 (SB 1029), codified as part of California Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the City. The primary objectives of the City's debt and financing related activities are to:

- Maintain the City's sound financial position;
- Ensure the City has the flexibility to respond to possible changes in future service priorities, revenue levels, and operating expenses;
- Protect the City's creditworthiness and achieve the highest practical credit ratings, were applicable;
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers, and constituents of the City;
- Ensure that the City's debt is consistent with the City's planning goals and objectives and Capital Improvement Program, as applicable; and
- Ensure the City is in compliance with all relevant State and Federal securities laws and other applicable laws and regulations.

3. Purposes for Which Debt May Be Issued

<u>Long-Term Debt.</u> Long-term debt may be issued to:

- Finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the City to provide basic services and/or benefit constituents over multiple years.
- Refinance outstanding debt to produce debt service savings or to realize the benefits of

a debt restructuring.

Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the City and its taxpayers and ratepayers.

Long-term debt financings are not appropriate for current operating expenses and routine maintenance expenses.

The City may use long-term debt financings subject to the following conditions:

- Projects to be financed must be approved by the City Council and the Successor Agency Board, (if applicable).
- The weighted maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project.
- The City estimates that sufficient revenues will be available to service the debt through its maturity.
- Debt service should not affect the City's ability to meet future operating, capital, and reserve requirements.
- The City determines that the issuance of the debt will comply with the applicable state and federal law.

Short-term debt. Short-term debt may be issued to provide financing for the City's operational cash flows to maintain a steady and even cash flow balance. Short-term debt may also be used to finance short-lived capital projects; for example, the City may undertake lease-purchase financing for equipment.

4. Types of Debt

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, costs, and risks. In order to maximize the financial options available to benefit the public, it is the City's policy to allow the consideration of issuing all generally accepted types of debt. The types of debt allowable under this Debt Policy, subject to applicable law, include but are not limited to:

General Obligation (GO) Bonds: GO Bonds are generally suitable for use in the construction or acquisition of improvements to real property or public infrastructure that benefit the public at large. General obligation bonds shall be used only to fund capital assets of the general government, and not used to fund operating needs of the City. General obligation bonds are backed by the full faith and credit of the City as well as the ad valorem tax authority of the City. The term of a bond issue shall not exceed the useful life of the asset(s) funded by the bond issue. GO bonds shall be authorized by the requisite number of voters in order to pass.

Revenue Bonds: Revenue Bonds are obligations payable from revenues generated by an enterprise, such as water or wastewater utilities or parking facilities. Revenue bonds shall be issued as determined by City Council to provide for the capital needs of any activities where the capital requirements are necessary for continuation or expansion of a service which produces revenue, and for which the asset may reasonably be expected to provide for a revenue stream to fund the debt service requirements. In accordance with the agreed upon bond covenants, the revenues generated by the 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. The term of the obligation may not exceed the useful life of the asset(s) to be funded by the bond issue. 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. The issuance of revenue bonds does not require voter approval.

Certificate of Participation/ Lease Revenue Bonds:
Certificate of Participation (COPs) and Lease Revenue Bonds (LRBs) are lease obligations secured by an installment sales agreement or by a leaseback arrangement with a public entity. Debt service for COPs may be either from general revenues or backed by a specific revenue stream or streams or by a combination of both The City pledges the operating revenues to pay the lease payments, which are, in turn, used to pay debt service on the bonds. 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. The City is obligated to annually budget for the rentals that are due and payable during each fiscal year that it has the use of the leased property. The term of the obligation may not exceed the useful life of the asset(s) to be funded by the proceeds of the debt issue. Generally, COP's are used to fund capital assets where full bond issues are not warranted as a result of the cost of the asset(s) to be funded through the instrument.

Assessment Bonds:
The City will consider requests from developers and property owner groups for the use of debt financing secured by property-based assessments or special taxes in order to provide for necessary infrastructure for new development including roadways, water and sewer facilities, storm drains, and other improvements. Examples of this type of debt are Assessment Districts (ADs) and Community Facilities Districts (CFDs), also known as Mello-Roos Districts. An Assessment District must include all properties that will benefit directly from the improvements to be constructed, and formation of the district requires an election in which at least 50% of property owners vote in favor of the district. Guidelines adopted by City Council may include minimum value-to-lien ratios and maximum tax burdens. In order to protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the issuance of special tax or special assessment debt.

Short-Term Debt:
Short-term borrowing, such as Bond Anticipation Notes, Tax and Revenue Anticipation Notes (TRANS), commercial paper, and lines and letters of credit, will be considered as an interim source of funding in anticipation of long-term borrowing, used to finance short-lived capital projects such as lease-purchase financing for equipment or information technology systems, or used to generate funding for cash-flow needs.

Refunding Bonds:
The City shall refinance debt pursuant to the authorization that is provided under California law, including but not limited to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, as market opportunities arise. Refundings may be undertaken in order:

(1) To take advantage of lower interest rates and achieve debt service costs savings;
(2) To eliminate restrictive or burdensome bond covenants; or
(3) To restructure debt to lengthen the duration of repayment, relieve debt service spikes, reduce volatility in interest rates or free up reserve funds.

Other Forms of Debt
The City may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Policy. Examples include conduit financing and tax increment financing to the extent permitted under State law. Any form of debt must comply with the remaining sections of this Debt Management Policy.

Pension Obligation Bonds
Pension obligation bonds (POBs) are taxable bonds are issued as part of an overall strategy to fund the unfunded portion of their pension liabilities by creating debt. The use of POBs rests on the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds.

5. Relationship to Capital Improvement Program and Operating Budget

New debt issues, and refinancing of existing debt, must be analyzed for compatibility within the City's Ten-Year Capital Improvement Plan.

The City shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The City shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The City shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

6. Policy Goals Related to 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 Debt Management Policy and to implement policy decisions incorporated in the City's Five-Year Financial Plan and its annual operating budget.

It is a policy goal of the City to protect taxpayers, ratepayers, and constituents by utilizing conservative financing methods and techniques 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.

When refinancing debt, it shall be the policy goal of the City to realize, whenever possible, and subject to any overriding non-financial policy considerations, (i) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (ii) present value debt service savings equal to or greater than 100% of any escrow fund negative arbitrage.

7. Internal Control Procedures

The City shall issue debt and use proceeds in a manner that is consistent with the then-applicable City ordinances, State and federal laws, and any other legal requirements with respect to such debt. When issuing debt, the City shall comply with any applicable covenants or policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds, including the following:

- Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12;
- Any federal tax compliance requirements including without limitation arbitrage and rebate compliance, related to any prior bond issues;
- The City's investment policies as they relate to the investment of bond proceeds.

It is the policy of the City to ensure that proceeds of debt are spent only on lawful and intended uses. Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the City will submit written requisitions for such proceeds. The City will submit a requisition only after obtaining the signature of the City Manager and or Finance Director. In those 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.

8. Debt Limits

The outstanding principal amount of debt described in Section 4 will not exceed two percent (2%) of the total assessed value of property in the City, and debt service and lease payments incurred for financing purposes that are payable from the City's general fund will not exceed 5% of operational appropriations.

Approved by the City Council Sonoma on June 21, 2021 via Resolution No. 40-2021