

CITY OF TRACY COUNCIL POLICY A-6

DEBT MANAGEMENT POLICY

Effective: June 16, 2020

Article I *General*

Section 1.01 Purpose Local governments issue multiple types of debt in order to finance public projects and meet their funding needs. The City of Tracy (the "City") has previously issued debt and anticipates having to do so in the future. The City seeks to establish a Debt Management Policy (the "Debt Policy") to standardize and guide the issuance and management of debt by the City. The Debt Policy is subject to City Council approval, and may be amended by the Council as it deems appropriate from time to time in the prudent management of the debt of the City.

This Debt Policy is intended to comply with Government Code Section 8855(i), effective on January 1, 2017, and shall govern all debt undertaken by the City, however, circumstances and needs may arise in which Council may elect to deviate from these standards.

Section 1.02 Findings

The City hereby finds and recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the City's sound financial position.
- Ensure that the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the City's credit-worthiness.
- 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 or budget, as applicable.

Article II *Debt Issuance and Management Policies*

Section 2.01. Purposes for Which Debt May Be Issued

(A) Long-Term Debt. 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.

(i) 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.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(ii) Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.

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

- The project to be financed must be approved by the City Council.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%.
- The City estimates that sufficient revenues will be available to service the debt through its maturity.
- The City determines that the issuance of the debt will comply with the applicable state and federal law.

(B) Short-term debt. Short-term debt may be issued to provide financing for the City's operational cash flows in order 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.

(C) Financings on Behalf of Other Entities. The City may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of City. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein.

Article III ***Types of Debt***

Section 3.01 The following types of debt are allowable under this Debt Policy:

- general obligation bonds
- bond or grant anticipation notes
- lease revenue bonds, certificates of participation and lease-purchase transactions

- other revenue bonds and certificates of participation
- tax and revenue anticipation notes
- land-secured financings, such as special tax revenue bonds issued under the Mello-Roos Community Facilities Act of 1982, as amended, and limited obligation bonds issued under applicable assessment statutes
- tax increment financing to the extent permitted under state law
- conduit financings, such as financings for affordable rental housing and qualified 501c3 organizations

Section 3.02 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.

Section 3.03 Debt shall be issued as fixed rate debt unless the City makes a specific determination as to why a variable rate issue would be beneficial to the City in a specific circumstance.

Article IV

Relationship of Debt to Capital Improvement Program and Budget

Section 4.01 The City is committed to long-term capital planning. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's capital budget and the capital improvement plan.

Section 4.02 The City shall strive to fund the upkeep and maintenance of its infrastructure, including but not limited to roadways, sidewalks, water, sewerage and storm drainage systems, etc. 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.

Section 4.03 The City shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the City's public purposes.

Section 4.04 The City shall seek to avoid the use of debt to fund infrastructure and facilities improvements in circumstances when the sole purpose of such debt financing is to reduce annual budgetary expenditures.

Section 4.05 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.

Article V

Policy Goals Related to Planning Goals and Objectives

Section 5.01 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 budget.

Section 5.02 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.

Section 5.03 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.

Section 5.04 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.

Article VI ***Internal Control Procedures***

Section 6.01 When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable local, state and federal regulations and policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

Section 6.02 The City will periodically review the requirements of and will remain in compliance with the following:

- 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, and
- the City's investment policies as they relate to the investment of bond proceeds.

Section 6.03 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's Senior Accountant. In those cases where the City finds it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, the City's Senior Accountant shall retain records of all expenditures of proceeds through the final payment date for the debt.

Adopted: June 16, 2020
Resolution No.: 2020-109
Effective Date: June 16, 2020
2020 Policy Reference: A-6