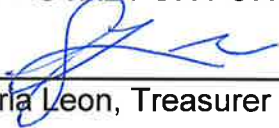


Calistoga Public Facilities Corporation

Staff Report

TO: Honorable Chairman and Board Members
FROM: Gloria Leon, Treasurer
 Dylan Feik, President
DATE: April 3, 2018
SUBJECT: Consideration of a Resolution Establishing a Debt Management Policy for the Calistoga Public Facilities Corporation.

APPROVAL FOR FORWARDING:



Gloria Leon, Treasurer

1
 2 **ISSUE:** Consideration of a Resolution Establishing a Debt Management Policy for the
 3 Calistoga Public Facilities Corporation.
 4

5 **RECOMMENDATION:** Adopt Resolution.
 6

7 **BACKGROUND:** Senate Bill 1029 (SB 1029), which became effective on January 1,
 8 2017, amended California Government Code 8855 to add certain requirements related to
 9 the issuance and administration of debt by local agencies, including requiring the
 10 adoption of a debt policy meeting the requirements of California Government Code 8855.
 11 This impact both the City of Calistoga and the Calistoga Public Facilities Corporation
 12 (collectively, the Covered Entities).
 13

14 In connection with the issuance of new debt by either of the Covered Entities, the
 15 applicable Covered Entity will need to submit to the California Debt and Investment
 16 Advisory Commission (CDIAC) a preliminary report of debt issuance describing the
 17 proposing debt to be issued. Part of the preliminary report of debt issuance is a
 18 certification that the applicable Covered Entity has adopted a debt policy that meets the
 19 requirements of the new legislation.
 20

21 **DISCUSSION:** As discussed during the recent adoption of new water and wastewater
 22 utilities rates staff is evaluating possible refunding of a portion of the existing debt if
 23 interest rates and pricing is favorable. In connection with the issuance of new debt by
 24 any of the Covered Entities, the applicable Covered Entity will need to submit to the
 25 California Debt and Investment Advisory Commission (CDIAC) a preliminary report of

26 debt issuance which will include a certification that the applicable Covered Entity has
27 adopted a debt policy that meets the requirements of the new legislation, which are found
28 in California Government Code 8855. Adoption of the debt policies by the governing
29 bodies of each applicable Covered Entity is required for compliance with the new
30 legislation.

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32 In accordance with Government Code 8855, a local debt policy must include all of the
33 following:

- 34
35 A. The purposes for which the debt proceeds may be used.
36 B. The types of debt that may be issued.
37 C. The relationship of the debt to, and integration with, the issuer's capital
38 improvement program or budget, if applicable.
39 D. Policy goals related to the issuer's planning goals and objectives.
40 E. The internal control procedures that the issuer has implemented, or will implement,
41 to ensure that the proceeds of the proposed debt issuance will be directed to the
42 intended use.

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44 The recommended Resolution adopts the recommended debt management policy that
45 meets all of these requirements.

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47 **FISCAL IMPACT:** None

48
49 **ATTACHMENTS:**

- 50 1. Draft Resolution
51 2. Draft Debt Management Policy

RESOLUTION NO 2018- XXX

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CALISTOGA PUBLIC FACILITIES CORPORATION ADOPTING A DEBT MANAGEMENT POLICY

WHEREAS, Senate Bill 1029 (SB 1029) became effective on January 1, 2017 amending California Government Code Section 8855 which requires the adoption of local debt policy prior to issuance of new debt; and

WHEREAS, as amended California Government Code Section 8855 requires that a local debt policy must include the following:

- (A) The purposes for which the debt proceeds may be used.
- (B) 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.
- (D) Policy goals related to the issuer's planning goals and objectives.
- (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; and

WHEREAS, the Calistoga Public Facilities Corporation (the "Corporation") wishes to clarify and establish debt management policies to guide Corporation staff regarding the issuance of City debt in compliance SB 1029 and California Government Code Section 8855 as amended.

NOW, THEREFORE BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE CALISTOGA PUBLIC FACILITIES CORPORATION AS FOLLOWS:

1. Issuance of City debt shall be made in accordance with the Debt Management Policy attached hereto as Exhibit A and made a part hereof.
2. The policies adopted by this resolution are in addition to and supplements any other legal requirements.
3. The Secretary shall certify to the passage and adoption of this resolution and the same shall take effect and be in force.

BE IT FURTHER RESOLVED that the Board of Directors of the Calistoga Public Facilities Corporation adopts a Debt Management Policy as contained in Exhibit A and made a part hereof.

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PASSED and APPROVED on this **3rd day of April, 2018**, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

BY: _____
Chris Canning, Chairman

ATTEST:

Kathy Flamson, Secretary

City of Calistoga

PM 14 - DEBT MANAGEMENT POLICY

I. POLICY PURPOSE

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 a Covered Entity.

The Covered Entities hereby recognize that a fiscally prudent debt policy is required in order to:

- Maintain the Covered Entities' sound financial position.
- Ensure the Covered Entities have the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Covered Entities' credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Covered Entities.
- Ensure that the Covered Entities' debt is consistent with their planning goals and objectives and capital improvement program or budget, as applicable.

II. POLICY

Purposes for Which Debt May Be Issued

1. 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.
 - 1.1. 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 Covered Entities and the City's taxpayers and/or ratepayers, as applicable.
 - 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.
 - 1.2. Long-term debt financings will not generally be considered appropriate for current operating expenses and routine maintenance expenses.
 - 1.3. The Covered Entities may use long-term debt financings subject to the following conditions:
 - The project to be financed must be approved by the governing board of the Covered Entity.

- 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 Covered Entity estimates that sufficient revenues will be available to service the debt through its maturity.
 - The Covered Entity determines that the issuance of the debt will comply with the applicable state and federal law.
2. Short-term debt. Short-term debt may be issued to provide financing for the Covered Entities' 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 Covered Entities may undertake lease-purchase financing for equipment.
3. Financings on Behalf of Other Entities. The Covered Entities 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 Covered Entities. In such cases, the Covered Entities 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.

Types of Debt

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

- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs)
- Lease revenue bonds, certificates of participation (COPs) and lease-purchase transactions
- Other revenue bonds and COPs
- Tax and revenue anticipation notes (TRANS)
- 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 501(c)(3) organizations

The governing body 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.

Relationship of Debt to Capital Improvement Program and Budget

The City and Covered Entities are committed to long-term capital planning. The City and Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the capital budget and the capital improvement plan.

The City and Covered Entities 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 and Covered Entities shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear.

The Covered Entities shall integrate their debt issuances with the goals of the capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of their public purposes.

The Covered Entities 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.

The Covered Entities 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.

Policy Goals Related to Planning Goals and Objectives

The City and Covered Entities are committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The Covered Entities intend to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the annual operations budget.

It is a policy goal of the City and the Covered Entities to protect taxpayers, ratepayers (if applicable) 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.

The City and the Covered Entities 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 Covered Entities 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.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Policy, the Covered Entities shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

Without limiting the foregoing, the Covered Entities will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the Covered Entities in accordance with SEC Rule 15c2-12.
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- Investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the Covered Entities upon the submission of one or more written requisitions by the City Manager/Executive Director or Administrative Services Director, or his or her written designee, or (b) by the Covered Entity, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the Covered Entity.

III. POLICY ELEMENTS

This Debt Management Policy (the “Debt Policy”) establishes the parameters within which debt may be issued and administered by the City of Calistoga (the “City”) and the Calistoga Financing Corporation (collectively, the “Covered Entities”). Additionally, these policies apply to debt issued by a Covered Entity on behalf of assessment, community facilities, or other special districts, and conduit-type financing by a Covered Entity for multifamily housing or industrial development projects.

The Debt Policy may be utilized by staff of the Covered Entities with the discretion to deviate as determined appropriate by the City Manager/Executive Director or Administrative Services Director and may be amended by the governing board of the applicable Covered Entity as it deems appropriate from time to time in the prudent management of the debt and capital financing needs of the Covered Entities.

IV. POLICY PROCEDURE

V. POLICY ATTACHMENTS

VI. POLICY AUTHORIZATION

The issuance of this PM 14 - Debt Management Policy is authorized by:

Dylan Feik, City Manager

Date