

**CITY OF REDDING, CALIFORNIA
COUNCIL POLICY**

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SHORT-TERM OPERATING DEBT POLICY

The expenses associated with the day-to-day operations of the City will be covered by current revenues. However, because the City receives the majority of its property tax revenues and a substantial portion of its sales tax revenue at two (2) times during the year and other revenues may fluctuate during the year, the City may experience temporary cash shortfalls. In order to finance these temporary cash shortfalls, the City may incur short-term operating debt [typically, tax and revenue anticipation notes (TRANS)]. The amount of the short-term operating debt will be based on cash flow projections for the fiscal year and will comply with applicable Federal and State regulations. Operating revenues will be pledged to repay the debt, which will generally be repaid within fifteen months or less. The costs of such borrowings will be minimized to the greatest extent possible.

LONG-TERM CAPITAL DEBT POLICY

The long-term capital debt policy sets the parameters for issuing debt and provides guidance in the timing and structuring of long-term debt commitments. This policy does not apply to the following types of transactions and situations: land-based financings (typically, assessment districts); debt issued by the redevelopment agency; payroll related liabilities (e.g., pension plans and other post employment benefits); landfill closure and post closure related liabilities; and risk management related liabilities. The City will consider the issuance of long-term obligations under the following conditions:

1. The City will use debt financing only for capital improvement projects and equipment purchases, and generally under the following circumstances:
 - a. When the project is or will be included in the City's budget.
 - b. When the project is not included in the City's budget but it is an emerging need whose timing was not anticipated during the budget preparation cycle, the planned financing of the project had not been completed during the budget cycle, or it is a project mandated immediately by State or Federal requirements.
 - c. When the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing.
 - d. When there are revenues sufficient to service the debt, whether from project revenues or other revenues sources.

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- e. When the repayment of the debt can be demonstrated by being included in a current long-range financial plan for all funds affected.
- 2. The following criteria will be used to evaluate pay-as-you-go versus long-term debt financing in funding capital improvements and equipment:
 - a. Factors which favor pay-as-you-go:
 - (1) Current revenues and adequate fund balances are available.
 - (2) Project phasing is feasible.
 - (3) Debt levels would adversely affect the City's credit rating.
 - (4) Market conditions are unstable or present difficulties in marketing.
 - b. Factors which favor long-term financing:
 - (1) Current revenues and fund balance are not adequate to pay for the capital improvements or equipment.
 - (2) Projected revenues available for debt service are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating.
 - (3) The project for which financing is being considered is of the type that will allow the City to maintain an appropriate credit rating.
 - (4) Market conditions present favorable interest rates and demand for municipal financings.
 - (5) A project is mandated by State or Federal requirements and current revenues and fund balances are insufficient to pay project costs.
 - (6) A project is immediately required to meet or relieve capacity needs.
 - (7) The life of the project or asset financed is three years or longer.

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3. The following will be considered in evaluating appropriate debt levels:
 - a. General Fund supported debt service will generally not exceed 10% of total budgeted expenditures, without specific City Council approval to exceed the 10% limitation.
 - b. The General Fund may be used to provide back-up liquidity to improve the viability of a self-supported debt issue (excluding land-based or redevelopment agency financings), but only if the General Fund is not exposed to significant risk of loss of assets or impairment of liquidity. This evaluation of risk will consider such things as the following:
 - (1) Volatility and collectibility of the revenue source identified for repayment of the debt.
 - (2) The likelihood the General Fund would be reimbursed within one year for any payments it could need to make in its role as back-up guarantor.
4. The City will follow all State and Federal regulations and requirements regarding bond provisions, issuance, taxation and disclosure.
5. The adoption of resolutions of intent will be considered whenever a bond issuance is contemplated to increase the flexibility related to funding costs related to the project (e.g., project development costs, architectural costs, studies, etc.).
6. Typically the costs incurred by the City, such as bond counsel, underwriter fees, financial advisor fees, printing, underwriters' discount, will be charged to the bond issue to the extent allowable by law. Project design and construction costs, to the extent included in the project financing plan and allowable by law, should be reimbursed from bond proceeds.
7. The City may seek credit enhancements, such as letters of credit or insurance, when beneficial or cost-effective.
8. The City will monitor compliance with bond covenants and adhere to Federal arbitrage regulations. Any instances of noncompliance will be reported to the City Council.
9. The City will seek to maintain or improve its current bond rating and will not ordinarily consider long-term debt that, through its issuance, would cause the City's bond rating to be lowered.

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10. The City will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure in every financial report and bond prospectus (Official Statement).
11. The City may obtain financing through a competitive basis or negotiated basis. If the City uses a negotiated financing, the City will perform steps necessary to ensure that the negotiated financing is competitive with similar current-long term financings.
12. The City will select financial advisors and/or underwriters on a competitive basis; these advisors may be retained for up to seven years to provide continuity and allow them to develop an understanding of the City's needs. Trustees and/or paying agents will be selected by competitive bid.
13. Interfund borrowing will be considered to finance projects on a case-by-case basis, only when sufficient funds are available to meet projected future expenditures in the fund making the loan. Interfund borrowing may be used when it would reduce costs of interest, debt issuance, and/or provide other benefits to the City.
14. The term of long-term debt instruments will not exceed the legal life of the asset or thirty years, whichever is less.
15. Bond proceeds will be invested in accordance with the provisions of the bond indenture. Funds set aside for debt service will only be used for that purpose.
16. Refundings will be considered to reduce interest costs, principal outstanding, or to eliminate restrictive debt covenants. Pooled financings with other government agencies will be considered, as appropriate.