CITY OF
FORT BRAGG

Fiscal Year 2024 Proposed Budget

DEBT

CITY OF FORT BRAGG
DEBT MANAGEMENT POLICY

INTRODUCTION

The City of Fort Bragg and the Fort Bragg Municipal Improvement District No. 1 (collectively referred to as the "City") have adopted the following "Debt Management Policy" which is intended to guide decisions related to debt issued by the City. Debt issuance should be evaluated on a case-by-case basis as well as within the context of the City's overall capital structure and policy objectives. Adherence to the Debt Management Policy is necessary to ensure that the City maintains a sound debt position and that it protects the credit quality of its debt obligations.

GOALS AND OBJECTIVES

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio which recognizes the City's specific capital improvement needs, ability to repay financial obligations, and legal, economic, financial and capital market conditions. Specifically, the Debt Management Policy is intended to assist the City in the following:

- Promoting sound financial management through accurate and timely information on financial conditions,
- Evaluating critical debt issuance options,
- Protecting and enhancing the City's credit rating.

The policies outlined in the Debt Management Policy are a tool to help ensure that adequate financial resources are available to support the City's long-term capital needs.

PRINCIPLES OF DEBT MANAGEMENT AND DEBT ISSUANCE

Factors to be considered when evaluating issuance or refunding of debt will include:

- Intergenerational equity,
- Compliance with the City's reserve policies,
- Cost of on-going maintenance of new projects,
- Forgone interest earnings from the use of cash reserves or investments,
- Debt service requirements and affordability.
- The City will manage its debt to ensure high credit quality, access to capital markets, and financial flexibility.
- The City will seek to fund a portion of its overall capital program from current resources (pay-as-you-go) and reserves, depending upon the specific projects, annual budgetary constraints and availability and rate of investment earnings.
- The City will consider the use of debt in those cases where public policy, equity, and

economic efficiency favor debt over cash (pay-as-you-go) financing.

- The City will not construct or acquire a facility or capital improvement if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility.
- The City will not fund working capital (general fund) reserves, or operating and maintenance costs through the issuance of debt.
- The City will utilize a multi-year capital financing plan to determine the affordability of debt. The capital financing plan will provide a multi-year forecast which shall include, but not be limited to; description of sources of funds; availability of current revenues, timing of capital projects, and debt service requirements.

STANDARDS FOR USE OF DEBT FINANCING

City Council Consideration. The City Council shall endeavor to receive sufficient information about debt financing to understand the short- and long-term ramifications of each debt issuance. The Council shall meet as necessary with the City Manager, Finance Director and other appropriate advisors, if deemed necessary, for the purpose of reviewing and making a final determination related to each debt issuance.

Long-Term Capital Projects. The City Council will consider the use of debt to finance long-term capital projects only when paying for the facilities or equipment over their useful life and concurrent with the benefits derived from the use of such facilities, and when project revenues or specific resources will be sufficient to service the long-term debt. The final maturity of the bonds shall not exceed the expected useful life of each project.

Special Circumstances for Debt Issuance. Debt may be used in special circumstances for projects other than long-term capital projects (as an example, for pension obligations) only after careful policy evaluation by the City.

Debt Financing Mechanisms. The City will seek to utilize the most cost advantageous financing alternative available, taking into consideration policy objectives. The Finance Director shall evaluate the use of all financial alternatives available, including, but not limited to long-term debt, pay-as-you-go, joint financing, reserve fund releases, lease-purchase, special districts, special assessments, state and federal aid, tax-exempt leasing, public/private partnerships, and State revolving loan programs. The recommendation of the Finance Director shall be submitted to the City Manager and a staff recommendation shall be submitted to the Council.

Methods of Issuance. The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

Credit Quality. All City debt management activities will be conducted to receive the highest credit ratings possible, consistent with the City’s financing objectives and, at a minimum, to maintain current credit ratings assigned to the City's debt by the major credit rating agencies.

Debt Capacity. The City will carefully monitor its level of general purpose debt. Because the City’s general purpose debt capacity is limited, it is important that the City only use general purpose debt financing for high-priority projects where other financing methods cannot be used. In evaluating debt capacity, general purpose annual debt service payments shall not exceed 10% of General Fund revenues. The City’s Enterprise Fund debt capacity will be evaluated as an integral part of the City's rate review and setting process. The City will set Enterprise Fund service rates at levels needed to fully cover debt service, operations, maintenance, administration and capital improvement requirements.

FINANCING CRITERIA

When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued:

Pay-As-You-Go Financing. The City will consider Pay-As-You-Go Financing if current revenues and adequate fund balances are available or project phasing can be accomplished. Other factors to be considered include: current debt levels, the effect of additional debt on the City's credit rating, anticipated difficulties in marketing debt, and stability of market conditions.

Long-Term Debt. The City may issue long-term debt, when required capital improvements cannot be financed from current revenues or reserves without having an impact on the City's financial stability and/or operating flexibility. Long-term borrowing should not be used to finance current operations or normal maintenance and repairs.

Variable Rate Debt. To maintain a predictable debt service burden and rate structure, the City may give preference to debt that carries a fixed interest rate. The City, however, may consider variable rate debt, especially in periods of high interest rates, or when the revenue stream for repayment is variable.

Interfund or Short-Term Debt. Interfund or short-term borrowing may be utilized for temporary funding of operational cash flow deficits or anticipated revenues. Short-term debt may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable.

TERMS AND CONDITIONS OF BONDS

The City shall establish all terms and conditions relating to the issuance of bonds, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the City Council, the following shall serve as bond requirements.

Maturity/Term. All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event will the term exceed 40 years.

Debt Service Structure. Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to meet aggregate debt service structuring objectives. Debt service should be structured primarily on an aggregate level annual basis, as opposed to on an escalating or deferred basis.

Coupon Structure. Debt may include par, discount, premium and capital appreciation bonds. Discount, premium, and capital appreciation bonds must be demonstrated to be advantageous relative to par bond structures.

Call Provisions. The City's securities should include an optional call feature, which typically is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful evaluation by the City and its financial advisor with respect to the value of the call option.

Bond Insurance / Credit Enhancement. The City shall have the authority to purchase bond insurance or credit enhancement when such purchase is deemed prudent and advantageous. The determination shall be based on the net present value debt service cost comparison of insured/enhanced bonds versus uninsured/unenhanced bonds.

Debt Service Reserves. A reserve fund shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers, rating agencies, and investor demands. The reserve fund shall be treated as a Restricted Reserve as defined in the City Reserve Policy. The City shall have the authority to purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis, taking into account the impact of investments and arbitrage rebate considerations.

REFINANCING OUTSTANDING DEBT

The Finance Director shall analyze outstanding bond issues for refunding opportunities that may be presented by underwriting firms. The City will consider the following issues when analyzing possible refunding opportunities:

Debt Service Savings. The City will refund debt when it is in the best financial interest of the City to do so. The City shall evaluate each refunding opportunity based on net present value savings, which shall take into account foregone interest earnings, all costs related to the refinancing, and arbitrage implications (i.e., net-to-net savings).

Restructuring. The City will only consider restructuring when it can be demonstrated that a proposed structure will assist the City in meeting at least one of several goals, including: meeting unanticipated revenue expectations, achieving cost savings, mitigating irregular debt service payments, releasing reserve funds or removing restrictive bond covenants.

Term of Refunding Issues. The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of intergenerational equity should guide this decision.

Escrow Structuring. The City shall utilize the least costly securities available in structuring refunding escrows.

Arbitrage. The City shall take all necessary steps to optimize escrows and to minimize negative arbitrage in a refunding escrow, including evaluating the risks and benefits of an economic versus legal defeasance.

MARKET RELATIONSHIPS

Rating Agencies and Investors. The Finance Director shall be responsible for maintaining the City's relationships with rating agencies (i.e., Moody's Investors Service, Standard & Poor's and Fitch).

Continuing Disclosure. The City shall remain in compliance with Securities Exchange Commission (SEC) Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within the deadlines imposed by Rule 15c-2-12. The City shall provide this information to the Municipal Securities Rulemaking Council (MSRB) Electronic Municipal Market Access Website (www.emma.msrb.org). The City will make this information available on its website.

Record Keeping/Reporting. The City shall maintain a repository for all debt-related records, which includes: all official statements, ordinances, indentures, trustee reports, leases, etc. for all City debt in electronic format. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice.

Arbitrage Rebate. The City will account for all interest earnings in debt-related funds. The use of bond proceeds and their investments shall be monitored to ensure compliance with all debt covenants, legal requirements, and IRS arbitrage regulations. The City will endeavor to make investments that maximize the amount of the interest earnings it can retain (under IRS regulations) for all bond funds. The Finance Director shall ensure that proceeds and investments are tracked in a manner which facilitates accurate calculation and timely payment of rebates, if applicable.

PROCUREMENT AND SELECTION OF FINANCING TEAM

The City shall procure professional services as required to execute financing transactions and to provide advice on non-transaction related work. The City shall establish selection criteria for selecting its financing team members, which include financial advisor, bond counsel, and underwriter. The criteria may include, but are not limited to:

- Professional excellence,
- Demonstrated competence,
- Specialized experience performing similar services for California agencies,
- Education and experience of key personnel to be assigned,
- Geographic proximity,
- Staff capability,
- Ability to meet schedules,
- Nature and quality of similar completed work of the firm or individual,
- Reliability and continuity of the firm or individual.

Note: Definitions to financial terms used in this policy are found in the Glossary section of the budget.

INTERFUND LOAN POLICY

The purpose of the City's Interfund Loan Policy is to specify the principles under which interfund loans may be considered and approved. The policy specifies the terms and conditions, it summarizes the due diligence necessary prior to the loan and provides guidance as to the repayment and accounting for these loans. This policy was designed to avoid the problems in interfund loans experienced in the past, facilitate future loans in a structured manner and set clear accounting rules for these loans. The principles of City's Interfund Loan Policy are as follows:

a. The City Council shall act by resolution to approve any proposed interfund loan. All interfund loans must be documented by formal agreements that specify the terms and conditions. The loan amount shall be approved at the amount minimally necessary to ensure the completion of the project for which the funding is required.

b. All interfund loans shall be interest bearing and the amount of interest to be paid on the loan must be at least equal to the investment earnings the fund making the loan would have received had the loan not occurred.

c. The term of an interfund loan shall be established by the City Council and typically shall not exceed five years.

d. All interfund loan proposals require a feasibility analysis demonstrating that:
    - The borrowing fund has the capacity to repay the debt;
    - The lending fund has the capacity to lend the funds, beyond its own operating and capital needs; and
    - The loan does not violate any debt covenants or other provisions of the borrowing and lending funds.

e. As part of the due diligence, each loan proposal must demonstrate that the loan can be repaid. It is important to avoid masking an operating deficiency in one fund with an interfund loan from another fund. This is the centerpiece of the policy, which seeks to avoid loans that fail the fundamental test of performance (repayment) under the contract.
    - If a feasibility analysis does not show that the loan can be safely repaid, the appropriate recommendation may be a revenue enhancement or another correction of the underlying reason for the funding deficiency. An alternative financing recommendation may be a fund balance donation. This requirement is also intended to identify conflicts with specific restrictions or requirements pertaining to certain funds. Such conflicts may arise from applicable debt covenants, fiduciary requirements on funds held by the City or legal hurdles that the funding needs to overcome.

f. There is to be no prepayment penalty, the interest is to be paid quarterly, and principle payments are subject to the feasibility analysis cash projections.

g. The interest expense from interfund loans is to be treated as user fund expense, while the interest income is to be treated as interest revenue to the loaning fund.

GENERAL FUND: 2021 LEASE REVENUE BONDS

$11,440,000
City of Fort Bragg Joint Powers Authority
2014 Water Revenue Refunding Bond
110-4390-0611

Date:	November 1, 2021
Interest:	Semiannual each November and May, commencing November 1, 2022. The interest rate is 3.5% per annum.
Maturity:	May 1, 2044
Rating:	A+
Purpose:	To refinance some or all of the unfunded accrued actuarial liability (UAL) owed by the City to the California Public Employees' Retirement System (CALPERS)
Security:	The Bond is secured by leasing the City Hall Building and the City's Police Department Building.

Fiscal Year	Principal	Interest	Total
FY 23/24	195,000	245,513	$ 440,513
FY 24/25	190,000	243,348	$ 433,348
FY 25/26	225,000	240,555	$ 465,555
FY 26/27	285,000	236,910	$ 521,910
FY 27/28	330,000	231,410	$ 561,410
FY 28/29	340,000	224,381	$ 564,381
FY 29/30	355,000	216,629	$ 571,629
FY 30/31	355,000	208,073	$ 563,073
FY 31/32	355,000	198,985	$ 553,985
FY 32/33	365,000	186,915	$ 551,915
FY 33/34	375,000	174,505	$ 549,505
FY 34/35	405,000	161,755	$ 566,755
FY 35/36	415,000	147,985	$ 562,985
FY 36/37	425,000	133,875	$ 558,875
FY 37/38	410,000	119,000	$ 529,000
FY 38/39	470,000	104,650	$ 574,650
FY 39/40	435,000	88,200	$ 523,200
FY 40/41	450,000	72,975	$ 522,975
FY 41/42	570,000	57,225	$ 627,225
FY 42/43	605,000	37,275	$ 642,275
FY 43/44	460,000	16,100	$ 476,100
	$ 8,015,000	$ 3,346,262	$ 11,361,262

*Imputed interest is implied interest; no interest is charged by the Department of Water Resources

	Principal	Interest	Total	Fees	Total Payment
FY 2023/24 Payments	**$ 195,000**	**$ 245,513**	**$ 440,513**		**$ 440,513**

WATER ENTERPRISE: 2014 REVENUE REFUNDING BOND

$2,962,000
City of Fort Bragg Water Enterprise
2014 Water Revenue Refunding Bond
610-4612

Date:	June 5, 2014
Interest:	Semiannual each April and October, commencing October 1, 2014. Interest rate is 3.060% per annum.
Maturity:	October 1, 2023
Rating:	Not available at this time.
Purpose:	To refund the 2003 California Statewide Communities Development Authority Water (CSCDA) and Wastewater Revenue Bonds. The CSCDA bonds were issued to refund the 1993 Water System Certificates of Participation which were issued to fund improvements to the City's water system.
Security:	The Bond is secured by revenues from the Water Enterprise Fund.
Required Coverage Ratio:	1.20
Disclosures:	Upon request the City shall provide (i) Audited Financial Statements with (240) days of the end of the Fiscal Year, (ii) annual certification that the City has satisfied the 1.20x coverage ratio, (iii) the approved annual budget of the City within (30) days of the end of the Fiscal Year and (iv) any other financial or operational reports as may reasonably requested and as soon as available.

Fiscal Year	Principal	Interest	Total
FY 14-15	$ 276,000	$ 70,301	$ 346,301
FY 15-16	268,000	78,091	346,091
FY 16-17	276,000	69,768	345,768
FY 17-18	284,000	61,200	345,200
FY 18-19	290,000	52,418	342,418
FY 19-20	300,000	43,391	343,391
FY 20-21	304,000	34,150	338,150
FY 21-22	312,000	24,725	336,725
FY 22-23	320,000	15,055	335,055
FY 23-24	332,000	5,080	337,080
Total	$ 2,962,000	$ 454,179	$ 3,416,179

	Principal	Interest	Total	Fees	Total Payment
FY 2023/24 Payments	**$ 332,000**	**$ 5,080**	**$ 337,080**	**$ 3,000**	**$ 340,080**

WASTEWATER ENTERPRISE: TREATMENT FACILITY

$5,000,000
2018 Wastewater Certificates of Participation
717-4712

Date: October, 2018
Interest: Semiannual each October and April, commencing October 1, 1998. Interest rate is 2.00% per annum.
Maturity: 2058
Rating: TBD
Purpose: To acquire and construct the District's Wastewater Treatment Facility.
Security: The Certificates of Participation are secured by an Installment Sale agreement between the City and the City of Fort Bragg Joint Powers Financing Authority with the JPFA as Seller and the City as Purchaser. The obligation is secured and payable from net revenues of the Wastewater Enterprise.

Fiscal Agent: US Bank Corporate Trust Services
Disclosures: TBD

2018 CERTIFICATE OF PARTICIPATION

Wastewater System Improvements Project

Fiscal Year	Principal	Interest	Total
FY 18-19	$ -	$ 76,111	$ 76,111
FY 19-20	86,000	99,140	185,140
FY 20-21	87,000	97,410	184,410
FY 21-22	89,000	95,650	184,650
FY 22-23	91,000	93,850	184,850
FY 23-24	93,000	92,010	185,010
FY 24-25	95,000	90,130	185,130
FY 25-26	97,000	88,210	185,210
FY 26-27	99,000	86,250	185,250
FY 27-28	101,000	84,250	185,250
FY 28-29	103,000	82,210	185,210
FY 29-30	105,000	80,130	185,130
FY 30-31	107,000	78,010	185,010
FY 31-32	109,000	75,850	184,850
FY 32-33	111,000	73,650	184,650
FY 33-34	113,000	71,410	184,410
FY 34-35	115,000	69,130	184,130
FY 35-36	118,000	66,800	184,800
FY 36-37	120,000	64,420	184,420
FY 37-38	123,000	61,990	184,990
FY 38-39	3,038,000	647,500	3,685,500
	$ 5,000,000	$ 2,274,111	$ 7,274,111

	Principal	Interest	Total	Fees	Total Payment
FY 2023/24 Payments	**$ 93,000**	**$ 92,010**	**$ 185,010**	**$ -**	**$ 185,010**