

Budget and Fiscal Policies

will not lapse until completion of the project phase.

H. **Program Objectives.** Project phases will be listed as objectives in the program narratives of the programs, which manage the projects.

I. **Public Art.** CIP projects will be evaluated during the budget process and prior to each phase for conformance with the City's public art policy, which generally requires that 1% of eligible project construction costs be set aside for public art. Excluded from this requirement are underground projects, utility infrastructure projects, funding from outside agencies, and costs other than construction such as study, environmental review, design, site preparation, land acquisition and equipment purchases.

It is generally preferred that public art be incorporated directly into the project, but this is not practical or desirable for all projects; in this case, an in-lieu contribution to public art will be made. To ensure that funds are adequately budgeted for this purpose regardless of whether public art will be directly incorporated into the project, funds for public art will be identified separately in the CIP.

Given the City's fiscal situation for 2005-07, public art will be funded at the same level required by the private sector: 0.5% rather than 1%.

CAPITAL FINANCING AND DEBT MANAGEMENT

A. Capital Financing

1. The City will consider the use of debt financing only for one-time capital improvement projects and only under the following circumstances:

- a. When the project's useful life will exceed the term of the financing.
- b. When project revenues or specific resources will be sufficient to service the long-term debt.

2. Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The issuance of short-term instruments such as revenue, tax or bond anticipation notes is excluded from this limitation. (See Investment Policy)

3. Capital improvements will be financed primarily through user fees, service charges, assessments, special taxes or developer agreements when benefits can be specifically attributed to users of the facility. Accordingly, development impact fees should be created and implemented at levels sufficient to ensure that new development pays its fair share of the cost of constructing necessary community facilities.

4. Transportation impact fees are a major funding source in financing transportation system improvements. However, revenues from these fees are subject to significant fluctuation based on the rate of new development. Accordingly, the following guidelines will be followed in designing and building projects funded with transportation impact fees:

a. The availability of transportation impact fees in funding a specific project will be analyzed on a case-by-case basis as plans and specification or contract awards are submitted for CAO or Council approval.

b. If adequate funds are not available at that time, the Council will make one of two determinations:

- Defer the project until funds are available.
- Based on the high-priority of the project, advance funds from the General Fund, which will be reimbursed as soon as funds become available. Repayment of General Fund advances will be the first use of transportation impact fee funds when they become available.

5. The City will use the following criteria to evaluate pay-as-you-go versus long-term financing in funding capital improvements:

***Factors Favoring
Pay-As-You-Go Financing***

- a. Current revenues and adequate fund balances are available or project phasing can be accomplished.
- b. Existing debt levels adversely affect the City's credit rating.
- c. Market conditions are unstable or present difficulties in marketing.

Factors Favoring Long Term Financing

- d. Revenues available for debt service are deemed sufficient and reliable so that long-term financings can be marketed with investment grade credit ratings.
- e. The project securing the financing is of the type, which will support an investment grade credit rating.
- f. Market conditions present favorable interest rates and demand for City financings.
- g. A project is mandated by state or federal requirements, and resources are insufficient or unavailable.
- h. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
- i. The life of the project or asset to be financed is 10 years or longer.

B. Debt Management

1. The City will not obligate the General Fund to secure long-term financings except when marketability can be significantly enhanced.
2. An internal feasibility analysis will be prepared for each long-term financing which analyzes the impact on current and future budgets for debt service and operations.

This analysis will also address the reliability of revenues to support debt service.

3. The City will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.
4. The City will seek an investment grade rating (Baa/BBB or greater) on any direct debt and will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes, availability and cost-effectiveness.
5. The City will monitor all forms of debt annually coincident with the City's Financial Plan preparation and review process and report concerns and remedies, if needed, to the Council.
6. The City will diligently monitor its compliance with bond covenants and ensure its adherence to federal arbitrage regulations.
7. The City will maintain good, ongoing communications with bond rating agencies about its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus (Official Statement).

C. Debt Capacity

1. ***General Purpose Debt Capacity.*** The City will carefully monitor its levels of general-purpose debt. Because our general purpose debt capacity is limited, it is important that we only use general purpose debt financing for high-priority projects where we cannot reasonably use other financing methods for two key reasons:
 - a. Funds borrowed for a project today are not available to fund other projects tomorrow.
 - b. Funds committed for debt repayment today are not available to fund operations in the future.

In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10% of General Fund revenues; and in no case should they exceed 15%. Further, direct debt will not exceed 2% of assessed valuation; and no more than 60% of capital improvement outlays will be funded from long-term financings.

2. **Enterprise Fund Debt Capacity.** The City will set enterprise fund rates at levels needed to fully cover debt service requirements as well as operations, maintenance, administration and capital improvement costs. The ability to afford new debt for enterprise operations will be evaluated as an integral part of the City's rate review and setting process.

D. Independent Disclosure Counsel

The following criteria will be used on a case-by-case basis in determining whether the City should retain the services of an independent disclosure counsel in conjunction with specific project financings:

1. The City will generally not retain the services of an independent disclosure counsel when all of the following circumstances are present:
 - a. The revenue source for repayment is under the management or control of the City, such as general obligation bonds, revenue bonds, lease-revenue bonds or certificates of participation.
 - b. The bonds will be rated or insured.
2. The City will consider retaining the services of an independent disclosure counsel when one or more of following circumstances are present:
 - a. The financing will be negotiated, and the underwriter has not separately engaged an underwriter's counsel for disclosure purposes.
 - b. The revenue source for repayment is not under the management or control of the

City, such as land-based assessment districts, tax allocation bonds or conduit financings.

- c. The bonds will not be rated or insured.
- d. The City's financial advisor, bond counsel or underwriter recommends that the City retain an independent disclosure counsel based on the circumstances of the financing.

E. Land-Based Financings

1. **Public Purpose.** There will be a clearly articulated public purpose in forming an assessment or special tax district in financing public infrastructure improvements. This should include a finding by the Council as to why this form of financing is preferred over other funding options such as impact fees, reimbursement agreements or direct developer responsibility for the improvements.
2. **Eligible Improvements.** Except as otherwise determined by the Council when proceedings for district formation are commenced, preference in financing public improvements through a special tax district shall be given for those public improvements that help achieve clearly identified community facility and infrastructure goals in accordance with adopted facility and infrastructure plans as set forth in key policy documents such as the General Plan, Specific Plan, Facility or Infrastructure Master Plans, or Capital Improvement Plan. Such improvements include study, design, construction and/or acquisition of:
 - a. Public safety facilities.
 - b. Water supply, distribution and treatment systems.
 - c. Waste collection and treatment systems.
 - d. Major transportation system improvements, such as freeway interchanges; bridges; intersection improvements; construction of new or widened arterial or collector streets

(including related landscaping and lighting); sidewalks and other pedestrian paths; transit facilities; and bike paths.

- e. Storm drainage, creek protection and flood protection improvements.
- f. Parks, trails, community centers and other recreational facilities.
- g. Open space.
- h. Cultural and social service facilities.
- i. Other governmental facilities and improvements such as offices, information technology systems and telecommunication systems.

School facilities will not be financed except under appropriate joint community facilities agreements or joint exercise of powers agreements between the City and school districts.

3. **Active Role.** Even though land-based financings may be a limited obligation of the City, we will play an active role in managing the district. This means that the City will select and retain the financing team, including the financial advisor, bond counsel, trustee, appraiser, disclosure counsel, assessment engineer and underwriter.

Any costs incurred by the City in retaining these services will generally be the responsibility of the property owners or developer, and will be advanced via a deposit when an application is filed; or will be paid on a contingency fee basis from the proceeds from the bonds.

4. **Credit Quality.** When a developer requests a district, the City will carefully evaluate the applicant's financial plan and ability to carry the project, including the payment of assessments and special taxes during build-out. This may include detailed background, credit and lender checks, and the preparation of independent appraisal reports and market absorption studies. For districts where one property owner accounts for more than 25% of the annual debt service obligation, a letter

of credit further securing the financing may be required.

- 5. **Reserve Fund.** A reserve fund should be established in the lesser amount of: the maximum annual debt service; 125% of the annual average debt service; or 10% of the bond proceeds.
- 6. **Value-to-Debt Ratios.** The minimum value-to-date ratio should generally be 4:1. This means the value of the property in the district, with the public improvements, should be at least four times the amount of the assessment or special tax debt. In special circumstances, after conferring and receiving the concurrence of the City's financial advisor and bond counsel that a lower value-to-debt ratio is financially prudent under the circumstances, the City may consider allowing a value-to-debt ratio of 3:1. The Council should make special findings in this case.
- 7. **Appraisal Methodology.** Determination of value of property in the district shall be based upon the full cash value as shown on the ad valorem assessment roll or upon an appraisal by an independent Member Appraisal Institute (MAI). The definitions, standards and assumptions to be used for appraisals shall be determined by the City on a case-by-case basis, with input from City consultants and district applicants, and by reference to relevant materials and information promulgated by the State of California, including the Appraisal Standards for Land-Secured Financings prepared by the California Debt and Investment Advisory Commission.
- 8. **Capitalized Interest During Construction.** Decisions to capitalize interest will be made on case-by-case basis, with the intent that if allowed, it should improve the credit quality of the bonds and reduce borrowing costs, benefiting both current and future property owners.
- 9. **Maximum Burden.** Annual assessments (or special taxes in the case of Mello-Roos or

similar districts) should generally not exceed 1% of the sales price of the property; and total property taxes, special assessments and special taxes payments collected on the tax roll should generally not exceed 2%.

10. ***Benefit Apportionment.*** Assessments and special taxes will be apportioned according to a formula that is clear, understandable, equitable and reasonably related to the benefit received by—or burden attributed to—each parcel with respect to its financed improvement. Any annual escalation factor should generally not exceed 2%.
11. ***Special Tax District Administration.*** In the case of Mello-Roos or similar special tax districts, the total maximum annual tax should not exceed 110% of annual debt service. The rate and method of apportionment should include a back-up tax in the event of significant changes from the initial development plan, and should include procedures for prepayments.
12. ***Foreclosure Covenants.*** In managing administrative costs, the City will establish minimum delinquency amounts per owner, and for the district as a whole, on a case-by-case basis before initiating foreclosure proceedings.
13. ***Disclosure to Bondholders.*** In general, each property owner who accounts for more than 10% of the annual debt service or bonded indebtedness must provide ongoing disclosure information annually as described under SEC Rule 15(c)-12.
14. ***Disclosure to Prospective Purchasers.*** Full disclosure about outstanding balances and annual payments should be made by the seller to prospective buyers at the time that the buyer bids on the property. It should not be deferred to after the buyer has made the decision to purchase. When appropriate, applicants or property owners may be required to provide the City with a disclosure plan.

F. Conduit Financings

1. The City will consider requests for conduit financing on a case-by-case basis using the following criteria:
 - a. The City’s bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.
 - b. There is a clearly articulated public purpose in providing the conduit financing.
 - c. The applicant is capable of achieving this public purpose.
2. This means that the review of requests for conduit financing will generally be a two-step process:
 - a. First asking the Council if they are interested in considering the request, and establishing the ground rules for evaluating it
 - b. And then returning with the results of this evaluation, and recommending approval of appropriate financing documents if warranted.

This two-step approach ensures that the issues are clear for both the City and applicant, and that key policy questions are answered.

3. The workscope necessary to address these issues will vary from request to request, and will have to be determined on a case-by-case basis. Additionally, the City should generally be fully reimbursed for our costs in evaluating the request; however, this should also be determined on a case-by-case basis.

G. Refinancings

1. ***General Guidelines.*** Periodic reviews of all outstanding debt will be undertaken to determine refinancing opportunities. Refinancings will be considered (within

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federal tax law constraints) under the following conditions:

- a. There is a net economic benefit.
 - b. It is needed to modernize covenants that are adversely affecting the City's financial position or operations.
 - c. The City wants to reduce the principal outstanding in order to achieve future debt service savings, and it has available working capital to do so from other sources.
2. ***Standards for Economic Savings.*** In general, refinancings for economic savings will be undertaken whenever net present value savings of at least five percent (5%) of the refunded debt can be achieved.
- a. Refinancings that produce net present value savings of less than five percent will be considered on a case-by-case basis, provided that the present value savings are at least three percent (3%) of the refunded debt.
 - b. Refinancings with savings of less than three percent (3%), or with negative savings, will not be considered unless there is a compelling public policy objective.

HUMAN RESOURCE MANAGEMENT

A. Regular Staffing

1. The budget will fully appropriate the resources needed for authorized regular staffing and will limit programs to the regular staffing authorized.
2. Regular employees will be the core work force and the preferred means of staffing ongoing, year-round program activities that should be performed by full-time City employees rather than independent contractors. The City will strive to provide competitive compensation and benefit schedules for its authorized regular work force. Each regular employee will:

- a. Fill an authorized regular position.
 - b. Be assigned to an appropriate bargaining unit.
 - c. Receive salary and benefits consistent with labor agreements or other compensation plans.
3. To manage the growth of the regular work force and overall staffing costs, the City will follow these procedures:
- a. The Council will authorize all regular positions.
 - b. The Human Resources Department will coordinate and approve the hiring of all regular and temporary employees.
 - c. All requests for additional regular positions will include evaluations of:
 - The necessity, term and expected results of the proposed activity.
 - Staffing and materials costs including salary, benefits, equipment, uniforms, clerical support and facilities.
 - The ability of private industry to provide the proposed service.
 - Additional revenues or cost savings, which may be realized.
4. Periodically, and before any request for additional regular positions, programs will be evaluated to determine if they can be accomplished with fewer regular employees. (See Productivity Review Policy)
5. Staffing and contract service cost ceilings will limit total expenditures for regular employees, temporary employees, and independent contractors hired to provide operating and maintenance services.

B. Temporary Staffing

1. The hiring of temporary employees will not be used as an incremental method for expanding the City's regular work force.