



## **City of Montclair, California Debt Management Policy**

### **POLICY**

This Debt Management Policy sets forth certain debt management objectives for the City of Montclair (City), and establishes overall parameters for issuing and administering the City's debt. Recognizing that cost-effective access to the capital markets depends on prudent management of the City's debt program, the City Council has approved this Debt Management Policy.

### **DEBT MANAGEMENT OBJECTIVES**

The purpose of this Debt Management Policy is to assist the City in pursuit of the following equally-important objectives:

- Minimize debt service and issuance costs;
- Maintain access to cost-effective borrowing;
- Achieve the highest practical credit rating;
- Full and timely repayment of debt;
- Maintain full and complete financial disclosure and reporting;
- Ensure compliance with applicable State and Federal laws.

### **GENERAL PROVISIONS**

#### **I. SCOPE OF APPLICATION**

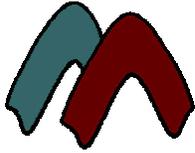
These policies establish the parameters within which debt may be issued by the City, the City of Montclair Financing Authority, and the City of Montclair Housing Corporation. Additionally, these policies apply to debt issued by the City on behalf of assessment, community facilities, or other special districts, and conduit-type financing by the City for multifamily housing or industrial development projects.

The City Council, as a member of Joint Powers Authorities, shall take these policies into account when considering the issuance of Joint Powers Authority debt.

Supplemental policies, tailored to the specifics of certain types of financings, may be adopted by the City Council in the future. These supplemental policies may address, but are not limited to, the City's general obligation, lease revenue, enterprise, multifamily housing, and land-secured financings.

#### **II. RESPONSIBILITY FOR DEBT MANAGEMENT ACTIVITIES**

The Finance Department shall be responsible for managing and coordinating all activities related to the issuance and administration of debt. The Director of Finance is appointed by the



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City Manager and is subject to his or her direction and supervision. The Director of Finance is charged with responsibility for the conduct of all Finance Department functions. Departments implementing debt-financed capital programs will work in partnership with the Finance Department to provide information and otherwise facilitate the issuance and administration of debt.

### **A. Debt Management Policy Review and Approval**

This policy shall be approved by the City Council, and reviewed annually by the Finance Department to insure its consistency with respect to the City's debt management objectives. Any modifications to this policy shall be approved by the Finance Director and will not be effective until approved by the City Council.

### **B. Annual Debt Report**

The Finance Department shall prepare an annual debt report for review and approval by the Finance the City Council, containing outstanding and newly-issued debt, a discussion of current and anticipated debt projects, refunding opportunities, a review of legislative, regulatory, and market issues, and an outline of any new or proposed changes to this Debt Management Policy.

### **C. Debt Administration Activities**

The Finance Department is responsible for the City's debt administration activities, particularly investment of bond proceeds, compliance with bond covenants, continuing disclosure, and arbitrage compliance, which shall be centralized within the Department.

## **III. PURPOSES FOR WHICH DEBT MAY BE ISSUED**

### **A. Long-term Borrowing**

Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment for which it is appropriate to spread these costs over more than one budget year. Long-term borrowing may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs which may be legally capitalized. Long-term borrowing shall not be used to fund City operating costs.

### **B. Short-term Borrowing**

Short-term borrowing, such as commercial paper and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the City Council determines that extraordinary circumstances exist, and



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must not exceed seven (7) years. Additionally, short-term borrowing may be considered if available cash is insufficient to meet short-term operating needs.

### **C. Refunding**

Periodic reviews of outstanding debt will be undertaken to identify refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve City objectives relating to changes in covenants, call provisions, operational flexibility, tax status, issuer, or the debt service profile. In general, refundings which produce a net present value savings of at least three percent (3%) of the refunded debt will be considered economically viable. Refundings which produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective that is accomplished by retiring the debt.

## **DEBT ISSUANCE**

### **I. DEBT CAPACITY**

The City will keep outstanding debt within the limits of applicable law, and at levels consistent with its creditworthiness objectives.

In accordance with Section 3.04.010 F. of the City of Montclair's Municipal Code, The City Council shall deliberate, at a public meeting, on any decision that involves borrowing funds in the amount of One Hundred Thousand (100,000) Dollars or more. That deliberation shall assess the impact of new debt issuance on the long-term affordability of all outstanding and planned debt issuance. Such analysis recognizes that the City has limited capacity for debt service in its budget, and that each newly issued financing will obligate the City to a series of payments until the bonds are repaid.

### **II. CREDIT QUALITY**

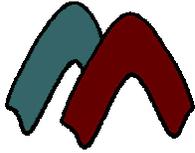
The City seeks to obtain and maintain the highest possible credit ratings for all categories of short-and long-term debt. The City will not issue bonds directly or on behalf of others that do not carry investment grade ratings. However, the City will consider the issuance of non-rated special assessment, community facilities, multifamily housing, and special facility bonds.<sup>i</sup>

### **III. STRUCTURAL FEATURES**

#### **A. Debt Repayment**

Debt will be structured for a period consistent with a fair allocation of costs to current and future beneficiaries of the financed capital project. The City shall structure its debt issues so that the maturity of the debt issue is consistent with the economic or useful life of the capital project to be financed.

<sup>i</sup> In most cases, a bond which cannot achieve an investment-grade rating will not be rated at all, because there is little value from a bond-marketing perspective in a below investment-grade rating.



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## **B. Variable-rate Debt**

The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. Such issuance must be consistent with applicable law and covenants of pre-existing bonds, and in an aggregate amount consistent with the City's creditworthiness objectives. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, and the overall debt portfolio structure when issuing variable rate debt for any purpose.

## **C. Derivatives**

Derivative products<sup>ii</sup> may have application to certain City borrowing programs. In certain circumstances these products can reduce borrowing cost and assist in managing interest rate risk. However, these products carry with them certain risks not faced in standard debt instruments. The Director of Finance shall evaluate the use of derivative products on a case-by-case basis to determine whether the potential benefits are sufficient to offset any potential costs. A report presenting this will be made to the City Council and approval obtained prior to initiating any program which utilizes derivatives.

## **IV. PROFESSIONAL ASSISTANCE**

The City shall utilize the services of independent financial advisors and bond counsel on all debt financings. The Director of Finance shall have the authority to periodically select service providers as necessary to meet legal requirements and minimize net City debt costs. Such services, depending on the type of financing, may include financial advisory, underwriting, trustee, verification agent, escrow agent, arbitrage consulting, and special tax consulting. The City Attorney's Office shall be responsible for selection of bond counsel and, in those circumstances where the City Attorney's Office determines it to be necessary or desirable, disclosure counsel. The goal in selecting service providers, whether through a competitive process or sole-source selection, is to achieve an appropriate balance between service and cost.

## **V. METHOD OF SALE**

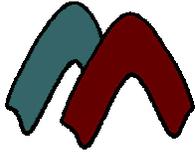
Except to the extent a competitive process is required by law, the Director of Finance shall be responsible for determining the appropriate manner in which to offer any securities to investors. The City's preferred method of sale is competitive bid. However, other methods such as negotiated sale and private placement may be considered on a case-by-case basis.

## **DEBT ADMINISTRATION**

### **I. INVESTMENT OF BOND PROCEEDS**

Investments of bond proceeds shall be consistent with federal tax requirements, the City's Investment Policy as modified from time to time, and with requirements contained in the governing bond documents.

<sup>ii</sup> A derivative product is a financial instrument which "derives" its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate index.



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## **II DISCLOSURE PRACTICES AND ARBITRAGE COMPLIANCE**

### **A. Financial Disclosure**

The City is committed to full and complete primary and secondary market financial disclosure in accordance with disclosure requirements established by the Securities and Exchange Commission and Municipal Securities Rulemaking Board, as may be amended from time to time. The City is also committed to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, timely, and accurate financial information.

### **B. Arbitrage Compliance**

The Finance Department shall maintain a system of record keeping and reporting to meet the arbitrage compliance requirements of federal tax law.