Policy 7.0
Debt Policy

EFFECTIVE ADOPTED	January 1, 2017
RESOLUTIONS	2017-02- 040
RELATED POLICIES	None
RELATED PROCEDURES	None

SUMMARY STATEMENT

The purpose of this policy is to govern all debt issued by the East Bay Regional Park District and to comply with California Government Code Section 8855(i). This policy is intended to: 1) maintain the District's sound financial position by ensuring that its long-term financing commitments are affordable and do not create undue risk or burden; 2) ensure that the District has the flexibility to respond to changes in future service priorities, revenue levels and operating expenses; 3) ensure the District's credit-worthiness in order to minimize its borrowing costs; 4) ensure that debt is structured to protect both current and future taxpayers and constituents of the District; 5) meet the requirements of state and federal law and regulation; 6) incorporate best practices into the District's issuance and administration of its indebtedness; and, 7) ensure that the District's debt is consistent with the District's planning goals and objectives, capital improvement program and budget.

The Board Finance Committee has responsibility to review and make recommendations to the Board of Directors regarding the issuance of debt obligations and the management of outstanding debt. The Board Finance Committee considers all issues related to outstanding and proposed debt obligations, and recommends to the Board of Directors, who will vote on issues affecting or relating to the credit worthiness, security and repayment of such obligations, including but not limited to procurement of services, structure, repayment terms and covenants of the proposed debt obligation, and issues which may affect the security of the bonds and ongoing disclosure to bondholders and interested parties. The Debt Policy may be amended by the Board of Directors as needed to ensure the prudent management of debt issuances.

USES AND RESTRICTIONS ON DEBT

Long-term debt shall be used to finance the construction, acquisition and rehabilitation of capital improvements and facilities, equipment and land. The District may also issue debt to provide grant funding to other local agencies to assist in the financing of additional park and recreation projects that meet the District's goals.

Long-term debt financing is appropriate when: 1) it provides the opportunity to acquire open space and other potential park land consistent with the District's goals and mission; 2) the project to be financed will provide benefit to constituents over multiple years; 3) the total debt does not constitute an unreasonable burden to the issuer or its taxpayers; 4) when the cost of the project exceeds amounts allocated out of revenues as part of the budget; or, 5) when the debt is used to refinance outstanding debt in order to produce debt service savings or realize the benefits of a debt restructuring. The District will not issue long-term debt obligations or use debt proceeds to finance current operations or routine maintenance expenses.

Short-term borrowing may be used to finance short-lived capital projects, including lease-purchase financing for equipment and, as needed, short-term working capital needs. The District will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond its control or reasonable ability to forecast.

TYPES OF DEBT ALLOWABLE AND LIMITS ON DEBT

The District shall strive to protect taxpayers, ratepayers and constituents by using conservative financing methods and techniques so as to obtain the highest practical credit rating and the lowest practical borrowing cost.

The following are types of debt that the District is likely to issue and are governed by this Policy:

General Obligation Bonds: The District may issue general obligation bonds with approval of 2/3 of those voting at an election. Such bonds are repaid out of a supplemental property tax, levied based on the value of property. Because general obligation bonds create a separate source of revenue, debt service does not create a burden on the District's operating budget, although the maintenance of acquired property does become an operating expense. The California Public Resources Code Section 5568 limits the District's indebtedness to 5% of assessed valuation. Based on FY 2016-17 assessed valuation in the two counties of $435.4 billion, the District could issue $21.7 billion in general obligation bonds, if approved by the voters. General Obligation bond proceeds are restricted to the acquisition and improvements of real property, as well as any limits imposed by the measure and approved by the voters.

Promissory Notes: Section 5544.2 of the California Public Resources

Code allows the District to acquire all necessary and proper lands and facilities, or any portion thereof by means of a plan to borrow money…" which provides the legal authority for the issuance of Promissory Notes. These debt instruments are unconditional obligations of the District, payable out of its general fund revenues. The State Code currently limits the amount of issuance to be equal to the District's anticipated property tax revenue allocations, excluding property tax overrides for the District's general obligation bond, for the next five-year period. Based on current law and the 2017 budget, the District could issue a maximum of $617 million in promissory notes.

Borrowing for Revenue Producing Facilities: Section 5544.1 of the California Public Resources Code allows the District to borrow money by the issuance of promissory notes or other evidences of indebtedness in an amount, or of a value, not exceeding, in the aggregate at any one time, the greater of 5 percent of the total of the district's general fund and development fund budgets for the year in which the loan is made, or the sum of five hundred thousand dollars ($500,000), to be used for any revenue-producing purpose for which the district may expend funds. These debt instruments are unconditional obligations of the District, payable out of its general fund revenues. The District will comply with the limitations on issuance amount, maturity date and maximum interest rate specified in said Section 5544.1.

Lease Revenue Bonds, Certificates of Participation and Lease-Purchase Transactions: As an alternative to Promissory Notes, the District can use lease financing to secure financings to be repaid out of the general fund. This form of financing would be appropriate if the District were to finance items not eligible for Promissory notes, such as equipment.

Tax and Revenue Anticipation Notes: Because almost 90% of the District's general fund revenues are derived from property tax, the District could issue tax and revenue anticipation notes that are repaid out of current year revenues to smooth any temporary cash shortages due to the timing of its receipts of property tax. Because of its adequate cash balances, the District has not utilized this form of financing in the past.

Land-Secured Financing, 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. While the District has occasionally used such mechanisms to raise additional operating funds, it has not used such revenues to secure bonds.

The following are some considerations that the District will take into

STRUCTURING AND ISSUING DEBT

account when it issues debt.

Term: Long-term debt obligations shall have a maximum maturity of (i) thirty years for indebtedness incurred pursuant to acquisition of lands and facilities designated in the District's master plan; or (ii) twenty years for acquisition of land or facilities not designated in the master plan; or (iii) any other applicable statutory limit, if shorter. In the case of refunding debt, the term will be no longer than the debt obligations being refinanced. Any debt with a longer term than specified by this policy must be approved by a supermajority of the Board of Directors.

Debt service: In general, the principal of the District's debt will be structured to produce level debt service over the length of the obligation. Alternative structures of principal will be considered for the District's general obligation bonds in order to better match the tax rate commitments made directly or indirectly to the District's voters; for example, principal may be front-loaded to provide a more stable tax rate over the life of the bond program. The District will avoid deferring debt service as it unfairly burdens future tax payers.

Interest rate modes: Debt shall be issued as fixed rate debt unless the District makes a specific determination regarding why a variable rate issue would be beneficial in a specific circumstance. Although the District will issue tax-exempt debt whenever practicable to take advantage of the lower interest rate, debt whose interest is federally taxable will be considered when appropriate to allow for flexibility in the potential for private use of facilities or when the District is not confident it can meet the time requirements for expenditure set forth in federal law.

Disclosure: For all public sales of debt, the District will retain the services of disclosure counsel (who may also serve as bond counsel) to prepare the Official Statement to be used in connection with the offering and sale of debt. Appropriate staff will review this document to ensure that it is accurate and does not fail to include information that such staff and officials think might be material to an investor.

Credit Ratings: The Assistant General Manager of Finance & Management Services/CFO, in consultation with the Financial Advisor and other members of the financing team, will evaluate and make recommendations regarding the number of credit ratings to seek on any given bond issue. The District will work to maintain its current high credit ratings.

Method of sale: Debt can be sold at a public offering either through a competitive or negotiated sale, or through a private placement with a bank or other institution. The best method of sale will be a reflection primarily on the type of security, its structure and market conditions. It is the District's preference to issue debt through a competitive sale, although a negotiated sale will be considered for unusual credits, volatile markets, or when otherwise determined to be in the District's best interest. The District will consider privately placing its debt for small borrowings or in instances where difficult disclosure considerations or other special circumstances so warrant.

Relationship of Debt Issuance to Long-term Planning & Capital Improvement Program

The District is committed to long-term financial planning, maintaining appropriate reserve levels and employing prudent practices in governance, management and budget administration.

The District shall integrate its debt issuances with the goals of its capital improvement program and annual operating budget, and time the issuance of debt to ensure that funding for projects is available when needed and is in furtherance of the District's public purpose.

The District shall strive to fund the maintenance of its infrastructure and facilities due to normal wear and tear through non-debt funding, or through expenditure of available operating revenues.

Refinancing

The District will regularly review its outstanding debt portfolio to identify opportunities to achieve net economic benefits from refunding its bonds. Recognizing that the District's ability to refund its debt is limited because of federal tax law constraints on advance refundings and the market practice of making most fixed-rate bond issuances non-callable for the first ten years, the District will seek to deploy its refunding options prudently. At a minimum, the District will seek to achieve net present value (NPV) savings equal to at least 3% of the par amount of the bonds that are refunded. For advance refundings (which are bonds closed more than 90 days before the optional call date), the threshold will be at least 5% NPV savings. A second limiting factor on advance refundings will be that negative arbitrage (the amount of additional funds that need to be deposited into an escrow to make up for the interest earnings being less than the interest on the defeased bonds) will be no greater than the amount of the NPV savings. Any proposed refunding with a NPV savings less than what is dictated by this policy must be approved by a supermajority vote of the Board of Directors.

Internal Controls

Whenever reasonably possible, the proceeds of debt issuance will be held by a third-party trustee and the District will submit written requisitions for release of proceeds only after obtaining the signature of the Assistant General Manager of Finance & Management Services/Chief Financial Officer. In cases where it is not reasonably possible for proceeds of debt to be held by a third-party trustee, the AGM of Finance & Management Services/CFO shall retain records of all expenditures through the final payment date for the debt.

All investments of bond proceeds shall adhere to the District's Investment Policy approved annually by the Board Finance Committee.

COMPLIANCE WITH ALL APPLICABLE LAWS

The District shall comply with all covenants and requirements of the bond resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations, maximum term of debt, and the procedures for levying and imposing related assessments, rates and charges.

The District will comply with all applicable requirements of the US Security & Exchange Commission, and all state and federal tax laws and arbitrage requirements as they pertain to this debt policy. The District will comply with all regulations regarding initial and continuing bond disclosure, as well as post-issuance compliance, and investment of bond proceeds.

The Assistant General Manager of Finance & Management Services/Chief Financial Officer and staff shall be responsible for ensuring that the District's debt is administered in accordance with its terms, federal and State law and regulations, and best industry practices, including the following:

Tax Exemption: Tax-exempt bond issues are subject to IRS rules and regulations regarding the use of bond proceeds. The District will ensure that the use of facilities financed with tax-exempt bonds are not used for ineligible private activities and will consult with bond counsel whenever it identifies a change in use, enters into a long-term contract involving the project, or otherwise undertakes an action that could change the tax-exempt status of the bonds. The District will retain an arbitrage rebate consultant to assist in calculating any earnings on bond proceeds in excess of the rate on its bonds, and to calculate whether arbitrage should be rebated to the Federal Government.

Continuing Disclosure: Under federal law, the District must commit to provide continuing disclosure to investors in any of its debt that is sold to underwriters to be offered to the public. All existing and future District debt should be compliant with the requirements of the Continuing Disclosure Certificates executed at the time of issuance, including the annual filing with the MSRB's Electronic Municipal Market Access (EMMA) website of the District's Comprehensive Annual Financial Report and any other required reports; the filing of notices of the material events set out in the Continuing Disclosure Certificates; and the filing of any voluntary disclosures deemed material. All such filings will be made within the time requirements set forth in the Continuing Disclosure Certificates.