



Board Policy No. 316 Debt Management Policy

ADOPTED: 4/1992

RECENT AMENDMENT: 6/26/2019

SEE ALSO: 461, 462

SUBJECT CATEGORY: SECTION 300, FINANCE

SUBSECTION: OPERATING BUDGET, RESERVES,
REVENUE AND CAPITAL

CONTROL DEPARTMENT: FINANCE

I. PURPOSE

The Debt Management Policy provides guidelines to ensure the prudent management of the debt and capital financing needs of the District and to reflect changes in tax law, government accounting practices, regulatory rules and the debt markets.

~~This Debt Management Policy is intended to comply with California Senate Bill (SB) 1029 which requires state and local agencies to adopt a comprehensive debt policy before any new debt can be issued starting in January 2017.~~ This Debt Management Policy incorporates the relevant best practices as recommended by the Government Finance Officers Association (GFOA). The District hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the District's sound financial position.
- Ensure the District has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the District's credit-worthiness and maintain good standing with credit rating agencies.
- Ensure that all debt is structured in order to minimize financial risk to the District.
- Ensure that the District's debt is consistent with the District's planning goals and objectives and capital improvement program or budget, as applicable.

II. PERSONS AFFECTED

Board of Directors and relevant staff members.

III. DEFINITIONS

"Capital Equipment" means all tangible personal property that has a useful life of more than one (1) year and an acquisition cost of \$105,000 or more per unit. This definition includes rolling stock and other tangible (movable) property used in the provision of public transit service.

"Bank Loans" means the direct placement loans negotiated with a commercial bank.

“Bond Anticipation Notes” (BANs) means short-term notes that are repaid with the proceeds of a long-term bond issuance.

“Certificates of Participation” (COP) means lease revenue bonds, and lease-purchase transactions which are payable solely by base rental payments made from the general fund.

“Conduit Issuer” means a joint powers authority created by the state, the County of Alameda, or other local governmental entities for the purpose of facilitating the issuance of debt instruments on behalf of governmental agencies such as the District.

“Commercial Paper” means a short-term instrument with maturity not longer than 270 days, often backed by a letter of credit or stand-by liquidity facility.

“Debt Service Coverage” means the ratio of net pledged revenues divided by the annual debt service due in a fiscal year.

“Direct Line of Credit” means an alternative to other short-term borrowing options. They are often structured as a short-term agreement with a financial institution, such as a commercial bank, providing a line of credit, including a revolving line of credit.

“General Obligation Bonds” (GO Bonds) means publicly voted debt that are payable from ad valorem taxes levied on properties located within the District. GO bonds are subject to approval by two-thirds vote of the voters of the debt proposition.

“Grant Anticipation Notes” (GANs) means short-term notes that are repaid with the proceeds of State or Federal grants of any type.

“Rating Agency” means Moody’s, Standard & Poor’s, and/or Fitch, and any other rating agency designated by the District.

“Refunding Obligation” means any instrument used to refinance an existing financial obligation.

“State Revolving Loan Funds” means direct loans from the state government.

“Tax and Revenue Anticipation Notes” (TRANS) means short-term notes for the purposes of funding cash flow needs and are secured and repaid with future anticipated taxes or other types of revenues, usually within the same fiscal year.

“Useful Life” means the date the asset is placed in service and continues until it is removed from service, or for real property, when the District no longer has beneficial use of such facility.

IV. POLICY

A. Purposes for Which Debt May Be Issued

1. Long-Term Debt.

a. Long-term debt (generally 5 years or longer) may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and operated by the District. Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to the District over multiple years.
- When total debt does not constitute an unreasonable burden to the District. *(See Section C below.)*
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring. *(See Section D below.)*

b. Long-term debt financings will not be considered appropriate for current operating expenses and routine maintenance expenses. The District may use long-term debt financings subject to the following conditions:

- The project to be financed must be approved by the District's Board.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the approximate average useful life of the project to be financed.
- The District estimates that sufficient revenues will be available to service the debt through its maturity.
- The District determines that the issuance of the debt will comply with the applicable state and federal law.

2. Short-term debt or Interim Financing. Short-term debt (generally less than 5 years) may be issued to provide financing for the District's operational cash flows in order to maintain a steady and even cash flow balance. Short-term debt can be issued to address operating cash flow issues in situations where there is an

assurance that grants or tax receipts will be available for repayment during the same fiscal period. Short-term debt may also be used to finance short-lived capital projects, or to provide bridge financing for capital project completion that will later be substituted, or refinanced, with an appropriate long-term financing instrument.

3. Capital Equipment Financing. Lease obligations are a routine and appropriate means of financing capital equipment by public transit agencies. Equipment/vehicle vendor financing is commonly utilized by transit agencies. The useful life of the capital equipment, the terms and conditions of the lease, the direct impact on debt capacity and budget flexibility will be evaluated prior to the implementation of a lease program. *(Also see Section D below.)*

B. Types of Debt

1. The following types of debt are allowable under this Debt Policy:

- General obligation bonds (GO Bonds)
- Bond or grant anticipation notes (BANs or GANs)
- Certificates of participation (COPs), lease revenue bonds, lease-purchase agreements, and capital equipment financing transactions
- Other revenue bonds
- Tax and revenue anticipation notes (TRANS)
- Commercial paper
- Refunding Obligations
- State Revolving Loan Funds
- Lines of Credit (including a revolving line), ~~or~~
- Bank Loans
- United States Department of Transportation (USDOT) Infrastructure Finance and Innovation Act (TIFIA) Loans

The District's Board may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of this Debt Management Policy. Debt shall be issued as fixed rate debt unless the District makes a specific determination as to why a variable rate issue would be beneficial to the District in a specific circumstance.

The District may issue certain types of debt via a Conduit Issuer such as through a joint powers authority created by the state, ~~the Counties of Alameda~~, or other local governmental agencies.

C. Relationship of Debt to Capital Improvement Program and Budget

The District is committed to long-term capital planning. The District intends to issue

debt for the purposes stated in this Debt Management Policy and to implement policy decisions incorporated in the District's capital budget and the capital improvement plan.

The District shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues.

The District shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the District's public purposes.

The District shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

The District shall not incur additional debt if the aggregate annual debt service for any future fiscal year (adjusted for the proposed new debt) will exceed 5% of the District's Total Operating Expenses as reflected in its most recent audited financial statements.

D. Policy Goals Related to Planning Goals and Objectives

The District is committed to long-term financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The District intends to issue debt for the purposes stated in this Debt Management Policy and to implement policy decisions incorporated in the District's annual operations budget and capital improvement program.

It is a policy goal of the District to utilize conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs. Consistent with this approach, interest rate swaps are prohibited under this Debt Management Policy.

When refinancing debt, it shall be the policy goal of the District to realize, whenever possible, and subject to any overriding non-financial policy considerations, (1) minimum net present value debt service savings equal to or greater than 3.0% of the refunded principal amount, and (2) present value debt service savings shall take into account any escrow fund negative arbitrage.

E. Internal Control Procedures

When issuing debt, in addition to complying with the terms of this Debt Management Policy, the District shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of

bond proceeds. Without limiting the foregoing, the District will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings entered into by the District in accordance with SEC Rule 15c2-12, as amended.
- Any federal tax compliance requirements, including, without limitation, arbitrage and rebate compliance.
- The District's investment policies as they relate to the use and investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee or fiscal agent, which will disburse such proceeds to or upon the order of the District upon the submission of one or more written requisitions by the General Manager of the District (or his or her written designee), or (b) by the District, to be held and accounted for in a separate fund or account, the expenditure of which will be carefully documented by the District.

V. AUTHORITY

A. The Debt Management Policy may be amended and updated by the Board as it deems appropriate.

B. All debt issuance must be approved by the Board.