

Sacramento Metropolitan Fire District

BOARD POLICY

POLICY TITLE: Debt Management Policy OVERSIGHT: Administration
POLICY NUMBER: 01.012.02 EFFECTIVE DATE: 08/13/15 REVIEW DATE: 06/26/2025

Background

The Sacramento Metropolitan Fire District (District) may, from time to time, opt to borrow funds to finance long-term capital improvement projects that cannot prudently be funded through operating funds. This policy is intended to comply with Government Code section 8855(i) and shall govern all debt incurred by the District. This Debt Management Policy establishes guidelines for the issuance and management of the District's debt and borrowing. The Debt Management Policy confirms the commitment of the District, management, and staff to adhere to sound financial management practices.

Purpose

The purpose of this policy is to set forth written guidelines for the issuance, structuring, and administration of debt issued to finance District expenditures. This policy seeks to balance the following important objectives of the District relative to the management of its debt portfolio: minimize financing costs, including interest and issuance costs, achieve and maintain highest practical credit rating, full and timely repayment of debt, full and complete financial disclosure and reporting, compliance with all applicable laws and regulations

Scope

This policy applies to all District debt issuances.

Definitions

1. **Capital Improvement Program (CIP) Plan.** The District's annual capital plan identifying all requests and funded projects over the next five (5) years.
2. **Debt:** For purposes of this policy, Debt means bonds, notes, certificates of participation, financing leases or any other financing obligation.
3. **Financial Advisor: (or Municipal Advisor)** A Financial Advisor is a professional services firm selected and retained by the District to act in a fiduciary capacity. Primary functions of the Financial Advisor include assistance in the development of the plan of finance and transaction timetable, advice on the method of sale, assistance with the selection of underwriters and other professional services, and overall coordination of the financing effort.
4. **Long-Term Debt:** For purposes of this policy, Long-Term Debt is defined as any debt with required payments beyond the fiscal year in which the debt is issued.

5. **Operating Cost:** Operating Cost is defined as any expenses for labor, services and supplies, or any other non-capital expenses.
6. **Short-Term Debt:** For purposes of this policy, Short-Term Debt is defined as any debt issued with full repayment within the current fiscal year.

Policy

1. Authority and Responsibility
 - a. All District debt issuance and debt management practices shall be performed in accordance with applicable federal, state and other legal requirements.
 - b. The Chief Financial Officer (CFO) is responsible for managing and coordinating activities related to the issuance, structure and administration of all debt obligations, regardless of length of term or purpose of financing.
 - c. The Board of Director's approval is required before the District undertakes any new debt obligation.
2. Debt Management
 - a. Debt capacity – The District will keep outstanding debt within the limits of applicable law, regulations, and bond covenants, and at a level consistent with this policy.
 - b. Funding considerations – The District shall consider all relevant factors when evaluating pay-as-you-go versus debt financing to fund capital expenditures. Funding on a pay-as-you-go basis generally results in lower total cost due to the avoidance of interest and financing expense.
 - I. Circumstances that would favor pay-as-you-go funding include:
 - A. Projected revenues and/or fund balances are sufficient to fund project expenditures.
 - B. Adding to existing debt levels could adversely impact the District's credit rating.
 - C. Market conditions are unfavorable or present uncertainty regarding the ability to effectively complete a debt issuance.
 - II. Circumstances that would favor debt financing include:
 - A. A project is required to meet service needs or regulatory requirements and current resources are insufficient to fund project expenditures.
 - B. Current and projected revenues, net of other expenditure requirements, are sufficient to pay projected debt service.
 - C. Market conditions present favorable interest rates.
3. Debt Issuance

- a. Capital Improvement Program Plan — The District shall use its CIP Plan to identify projects for consideration for debt financing.
 - b. Long-Term Debt – Long-Term Debt may be used to finance (or refinance) the planning, design, construction, acquisition and/or improvement of land, infrastructure, facilities, or equipment for which it is appropriate to spread the costs over multiple budget years. Long-Term Debt may also be used to fund capitalized interest, costs of issuance, required reserves, and any other financing-related costs that may legally be debt-financed. Long-Term Debt shall not be used to fund District Operating Costs.
 - c. Short-Term Debt - Short-Term Debt may be issued for any purpose for which Long-Term Debt may be issued. Short-Term Debt is also appropriate to address legitimate short-term cash flow requirements during a given fiscal year to fund District Operating Costs. The District will not engage in short-term borrowing solely for purposes of generating investment returns.
 - d. Professional assistance – The CFO shall have the authority to periodically select service providers, including Financial Advisors, Bond Counsel, Disclosure Counsel, Underwriters, Bond Insurers, and rating agencies, as necessary to meet legal requirements and minimize District debt costs. The CFO will ensure selections with the goal of achieving an appropriate balance between service (including experience, professional reputation, and market recognition) and cost.
 - e. Method of sale – Except to the extent a competitive process is required by law, the CFO, in consultation with the District's Financial Advisor, shall be responsible for determining the appropriate manner in which to offer any securities to investors, including competitive sale, negotiated sale, or private placement.
 - f. Security/collateral – The security for each debt issuance shall be determined based on appropriateness for the use and amount of financing, as well as with the objectives of achieving the overall lowest cost of financing and maintaining or improving the District's credit rating.
 - g. Conduit issuer – The CFO, in consultation with the District's Financial Advisor and depending on the preferred structure of the debt, shall be responsible for determining the appropriate use of conduit issuers for the issuance of District debt.
 - h. Type of debt — The type of debt selected will be identified by the CFO and approved by the Board of Directors. Types of debt to be considered include: general obligation bonds, lease-revenue bonds, pension obligation bonds, and community finance districts.
4. Debt Structuring
- a. Length of term – The District shall structure its debt so that the maturity of the debt issue is consistent with the economic or useful life of the asset(s) being financed.
 - b. Debt service structure – Debt service shall be structured in generally level annual payments, with exceptions related to pricing and cash flow

considerations as well as the structure of existing debt to achieve overall level payments.

- c. Interest rate – Fixed-rate debt shall be the preferred method of financing. There may be situations in which issuing debt with an interest rate that varies according to a pre-determined formula or index is in the best interest of the District; however, lower variable rates must always be weighed against the greater risk associated with variable rate financings. The District shall strive to limit the amount of variable rate debt to no more than 20% of its overall portfolio.
- d. Call provisions – In order to maintain future flexibility, the District's preferred structure for Long-Term Debt shall be to include optional redemption at par at a reasonable call date given the overall structure of the financing.
- e. Derivatives – The District will not use any derivative products. If the District decides to utilize derivatives in the future, the District shall adopt a separate derivatives policy.

5. Debt Administration

- a. Internal Controls — the District shall use its CIP Plan to direct long-term financing resources. Additionally, all debt issuances will be subject to annual audit and may also be reviewed by an independent citizen-led debt oversight committee.
- b. Post-Issuance Compliance – The Finance Division shall maintain written procedures outlining required actions to ensure compliance with applicable laws and regulations, including requirements related to continuing disclosure, arbitrage rebate, and permitted investments of bond proceeds.
- c. Refunding – Outstanding debt shall be reviewed periodically under the direction of the CFO to identify opportunities to achieve savings through refunding. When refinancing debt on a current basis, it shall be the policy goal of the District to realize net present value debt service savings equal to or greater than 3.0% of the refunded principal amount. Additionally, non-economic refundings may be considered to achieve District objectives related to operational flexibility or overall debt service profile.

References:

- 1. District Policy - Capital Improvement Program Policy (March 22, 2022)
- 2. Bobby Cheung of KNN Public Finance, LLC, a District municipal advisor