



**FINANCIAL
SERVICES**

City of Burbank Financial Services

Debt Management Policy

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Burbank Financial Services Debt Management Policy

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I. INTRODUCTION

This Debt Management Policy (“Debt Policy”) provides guidelines for debt issuance, management and post-issuance for the City of Burbank (the “City”).

II. PURPOSE

The purpose of this Debt Policy is to establish guidelines and parameters for the effective governance, management and administration of debt and other financing obligations issued by the City and its related entities. This Debt Policy is intended to direct decision making, assist with structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term planning. Adherence to a debt policy helps to ensure the City’s debt is issued and managed effectively to maintain a sound financial position and credit worthiness. When used in this Debt Policy, “debt” refers to all indebtedness and financing obligations of the City and its related entities. The debt policy is subject to and limited by applicable provisions of state and federal law and prudent debt management principles.

III. OBJECTIVES

This Debt Policy is intended to comply with the requirements of Senate Bill 1029 (SB 1029) codified as part of California Government Code Section 8855, effective on January 1, 2017, and shall govern all debt undertaken by the City. This Debt Policy follows the best practices provided by the Government Finance Officers Association (GFOA).

The primary objectives of the City’s debt and financing related activities are to:

- A. Maintain the City’s sound financial position;
- B. Protect the City’s credit worthiness;
- C. Ensure the City has the flexibility to respond to possible changes in future service obligations, revenues, and operating expenses;
- D. Ensure that all debt is structured in order to protect both current and future stakeholders of the City;
- E. Ensure the City’s debt is consistent with the City’s planning goals and objectives and capital improvement or budget as applicable; and
- F. Ensure the City is in compliance with all relevant State and Federal securities laws and other applicable laws and regulations.

IV. ACCEPTABLE USES OF DEBT PROCEEDS

The City will consider the use of debt financing primarily for assets and capital projects only if the term of debt shall not exceed the asset(s) or project’s useful life or will otherwise comply with federal tax law requirements. An exception to this long-term driven focus is the potential issuance of short-term instruments, such as Tax and Revenue Anticipation Notes (TRAN’s),

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which may not be used for reasonable cash management purposes, as described below. Bonded debt shall not be issued to finance normal operating expenses. General Fund debt will not be issued to support ongoing operational costs unless such debt issuance achieves net operating cost savings, and such savings are verified by independent analysis.

A. Long-Term Debt

- i. Long-term debt may be issued to finance the construction, acquisition, and rehabilitation of capital improvements and facilities, equipment, and land to be owned and/or operated by the City. Long-term debt financings are appropriate when any of the following conditions exist:
 1. When the project to be financed is necessary to provide basic municipal services, or other projects for the benefit of the City's stakeholders;
 2. When the project to be financed will provide benefit to the City's stakeholders over a duration of more than one year;
 3. When the total debt financing would not impose an unreasonable burden on the City and its stakeholders, as applicable; or
 4. When the debt is used to refinance outstanding debt to produce savings or benefit from debt restructuring.

- ii. The City may use long-term debt financings subject to each of the following conditions:
 1. The project to be financed has been or will be considered and approved by the City Council;
 2. The average life of the debt (or portion of the debt allocated to the project) will not exceed 120% of the average economic life of the project to be financed;
 3. The City estimates that sufficient revenues will be available to service the debt through its maturity; and
 4. The City determined that the issuance of the debt will comply with the applicable requirements of State and Federal law.

B. Short-Term Debt

- i. Short-term debt may be issued to provide financing for the City's operational cash flows to maintain a steady balance in the event of temporary shortfalls due to timing of receipt of revenues and the lack of cash on hand to cover temporary deficits. Short-term debt may also be used to finance the City's short-lived capital projects, such as undertaking lease-purchase financing for equipment.

C. Financing on Behalf of Other Entities

- i. In order to further the public purposes of the City, debt may be issued on behalf of other governmental agencies. Prior to issuance, the City shall confirm the financial

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feasibility of the project being financed, the financial solvency of the borrower, and the compliance with this Debt Policy.

V. STANDARDS FOR USE OF DEBT FINANCING

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, costs, and risks. The City will consider debt issuance only in those cases where public policy, equity and economic efficiency favor debt financing over cash funding. Prior to the issuance of debt or other financing obligations, the City will carefully consider the overall long-term affordability of the proposed debt issuance by conducting an objective analysis of the City's ability to support additional debt service payments. The City will consider its long-term revenue and expenditure trends, the impact on operational flexibility and overall debt burden on the stakeholders. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and/or maintain debt levels consistent with its current operating and capital needs.

VI. TYPES OF DEBT

To maximize the financial obligations available to benefit the public, it is the City's policy to allow the consideration of issuing all generally accepted types of debt with careful review and analysis to determine whether it meets the City's long-term objectives. The review shall include an analysis of all available and projected funding sources and how proposed debt structure would fit within the overall debt portfolio of the City. The generally acceptable types of debt the City may consider include the following:

A. General Obligation (GO) Bonds:

- i. GO bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. The California Government Code, Division 4, Chapter 4, Article 1 commencing with section 43600 authorizes cities to finance certain municipal improvements through GO bonds when a city determines the public interest and necessity demands the acquisition, construction or completion of such municipal improvements, including property or structures necessary or convenient to carry out the objects, purposes, and powers of a city.
 1. Examples of projects include but are not limited to libraries, parks, public services, and public safety facilities. All GO bonds must be authorized by the requisite number of voters. California State Constitution, Article 16- Public Finance, Section 18, requires that the issuance of GO Bond must be approved by a two-thirds majority of those voting on that Bond proposition.

B. Revenue Bonds:

- i. Revenue bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. Generally,

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no voter approval is required to issue this type of obligation but in some cases, the City must comply with proposition 218 regarding rate adjustments.

1. An example of projects that would be financed by a Revenue Bond would be improvements to a water system, which would be paid back with money raised from rates and charges to water users.

C. Certificates of Participation (COPs)/Joint Powers Authority (JPA) Lease Revenue Bonds:

- i. These are lease obligations secured by an installment sale or lease-back arrangement between the City and another public entity. The City may obtain financing payable from the General Fund through the issuance of debt by a public benefit corporation or joint exercise of powers agency with such debt payable from amounts paid by the City under a lease, installment sale agreement, or contract of indebtedness. Lease-back debt does not constitute indebtedness under the state or City's constitutional debt limit and does not require voter approval.

D. Loans:

- i. The City is authorized to enter into loans, installment payment obligations, or other similar funding structures secured by a prudent source or sources of repayment.

E. Special Assessment/Special Tax Debt:

- i. The City will consider requests from developers for the use of debt financing secured by property-based assessments or special taxes to provide for necessary infrastructure for new development under guidelines adopted by City Council, which may include minimum value-to-lien ratios and maximum tax burdens. To protect bondholders as well as the City's credit rating, the City will also comply with all State guidelines regarding the issuance of special tax or special assessment debt.

1. Examples of this type of debt are Assessment Districts (ADs) and Community Facilities Districts (CFDs).

F. Conduit Financing:

- i. Conduit financing involves the issuance of securities by a government agency to finance a third party's project such as a non-profit organization or other private entity. Conduit financings are typically not secured by the City's credit. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and strategic objectives. While conduit financings do not constitute a general obligation of the City, the same level of due diligence prior to bond issuance is required.

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1. Examples include industrial development bonds and financings for affordable rental housing and qualified 501(c)(3) organizations.

G. Short-Term Debt:

- i. Short-term borrowing, such as commercial paper, TRAN's, and lines of credit, will be considered as an interim source of funding in anticipation of long-term borrowing and may be issued to generate funding for cash flow needs. The final maturity of the debt issued to finance the project shall be consistent with the useful life of the project.
- ii. Short-term debt may also be used to finance short-lived capital projects such as lease purchase financing for equipment.

H. Refunding Bonds:

- i. The City may refinance debt pursuant to the amortization that is provided under California law, including but not limited to Articles 10 and 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, as market opportunities arise. Refunding may be undertaken in order to:
 1. Take advantage of lower interest rates and achieve debt service cost savings;
 2. Eliminate restrictive or burdensome bond covenants; or
 3. Restructure debt to relieve debt service spikes, reduce volatility in interest rates or free up reserve funds,
- ii. Generally, the City shall strive to achieve a minimum of 3.00% net present value savings as recommended by GFOA. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Refunding's which produce a net present value savings of less than 3% will be considered on a case-by-case basis. Upon the advice of the Financial Services Director or Chief Financial Officer, and with the assistance of a municipal advisor and bond counsel, the City will consider undertaking refunding's for other than economic purposes based upon a finding that such a restructuring is in the City's overall best financial interest.

I. Pension Obligation bonds (POBs):

- i. The City may utilize POBs, which are financing instruments used to pay some or all of an entity's unfunded pension liability. The bonds must be issued on a taxable basis and the proceeds are transferred to the issuer's pension system as a prepayment of all or part of the issuer's unfunded pension liability. The proceeds are then invested by the pension system. These bonds function as arbitrage instruments and come with interest rate return risks.

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J. Tax Increment Financing

- i. Tax Increment Financing provides options to finance infrastructure and economic development projects using as a repayment stream property tax revenues generated above an established “base year” value (tax increment). The City may consider tax increment financing to the extent permitted under State law. When considering tax increment financing mechanisms permitted by law, the City should analyze the practical viability of the proposed financing and take into account the potential impact of the proposed structure on existing debt limitations.
 1. Examples include Enhanced Infrastructure Financing Districts (EIFDs) or Community Revitalization and Investment Authorities (CRIAs)

It is possible the City finds that other forms of debt would be beneficial to further its public purposes and may approve such debt without amendment of this Debt Policy. However, the other form or forms of debt must comply with this Debt Policy.

Debt shall be issued as fixed rate debt unless the City determines a variable rate issue would be beneficial to the City based on the circumstances.

VII. STRUCTURE AND TERM OF DEBT ISSUES

The City will establish all terms and conditions related to the issuance of debt, and will control, manage and invest all debt proceeds. The following restrictions will be followed unless otherwise authorized by the City.

A. Term of Debt

- i. Debt will be structured for the shortest practicable period, consistent with a fair allocation of costs to current and future users. Typically, the term of long-term debt borrowing is 5-30 years. Generally, the average life of the debt should be equal to or less than 120% of the average economic life of the projects or equipment being financed, unless there are specific circumstances that would mitigate the extension of time to repay the debt and it would not result in violation of any covenants to maintain the tax-exempt status of such debt, if applicable.

Tax Code and the Regulations prohibit the issuance of debt by public agencies that may “overburden” the tax exempt bond market. Bonds with a term that exceeds 120% of the average reasonably expected economic life of the financed capital projects may be evidence of the fact that the bonds may remain outstanding longer than necessary.

B. Debt Repayment Structure

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- i. In structuring a debt issue, the City will manage the amortization of debt and, to the extent possible, match its cash flow to the anticipated debt service payments. The City shall design the repayment of debt to take best advantage of market conditions, provide flexibility, and as practical, to recapture or achieve its best credit rating. The City will evaluate alternative debt structures to ensure the most cost-efficient financing under prevailing market conditions.
- ii. The City will generally seek to structure debt with aggregate level annual debt service payments over the life of the debt. Structures with non-level debt service will be considered when one or more of the following exist:
 1. Natural Disasters or extraordinary unanticipated external factors prohibit debt payments in the early years of the issuance.
 2. Such structuring is beneficial to the City's aggregate overall debt payment schedule.
 3. Such structuring will allow debt service to more closely match project revenues.

C. Bond Maturity Options

- i. For each bond issuance, the City will select serial bonds or term bonds, or both. On occasions where circumstances warrant, capital appreciation bonds (CABs) may be used. The decision to use serial bonds, term bonds or CABs or any combination is typically based on market conditions and investor demand.

D. Credit Enhancement

- i. Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include letters of credit, bond insurance and surety policies. The City's municipal advisor may recommend the use of credit enhancement if it reduces the overall cost of the proposed financing or if the use of such credit enhancement furthers the City's overall financing objectives.

E. Debt Service Reserve Fund/Surety Policy

- i. Debt Service Reserve funds are held by the bond trustee to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so. The City will fund debt service reserve funds when it is in the City's overall best financial interest.
- ii. Under federal tax law, the size of the reserve fund is generally limited to the lesser of 10% of par amount of bonds, 125% of average annual debt service, and 100% of maximum annual debt service.
- iii. In lieu of holding cash reserve. The City may substitute a surety bond or other credit instrument in its place. The decision to cash fund a reserve fund rather than to

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use a credit facility is dependent on the cost of the credit instrument and the investment opportunities.

- iv. The City may decide not to utilize a reserve fund or to fund a partial reserve fund if the Financial Services Director or Chief Financial Officer, assisted by the City's municipal advisor, determines there would be no adverse impact on the City's credit rating or interest rates.

F. Call Provisions

- i. A call option or optional redemption provision gives the City the right to prepay or retire a debt prior to its stated maturity date. The option may permit the City to achieve interest savings in the future through the refunding of the debt. Because the cost of call options can vary depending on market conditions, an evaluation will be conducted in connection with each issuance.
- ii. In general, the City's debt issues will include a call feature that is no later than ten (10) years from the date of delivery of the debt. The City will generally avoid the sale of non-callable debt. The use of a call option will be evaluated and recommended on a case-by-case basis.

VIII. STRUCTURE OF SECURITIES

The City will determine on a case-by-case basis whether to sell its bonds through a public sale or private placement.

- A. Public Sale- there are two methods of public sale of debt, competitive and negotiated. Both methods of sale shall be considered for all issuance of debt to the extent allowed by law, as each method has the potential to achieve the lowest financing cost given the right conditions.
 - i. Competitive Sale- when a competitive bidding process is deemed the most advantageous method of sale for the City, award shall be based upon, among other factors, the lowest offered True Interest Cost ("TIC"), as long as the bid adheres to requirements set forth in the official notice of sale.
 - ii. Negotiated Sale- When a negotiated sale process is deemed the most advantageous method of sale for the City, selection shall be based upon, among other factors, qualifications, experience, pricing ability, and fees.
- B. Private Placement- such method of sale shall be considered if it is deemed to result in cost savings or provide other advantages relative to other methods of debt issuance, or if it is determined that access to the public market is unavailable and timing considerations require that a financing be completed.

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IX. RELATIONSHIP TO CAPITAL IMPROVEMENT PROGRAM AND OPERATING BUDGET

The City intends to issue debt for the purposes stated in this Debt Policy and the decision to incur new indebtedness should be integrated with the City Council-adopted annual Operating Budget and Capital Improvement Program Budget. Prior to the issuance of revenue bonds, a reliable revenue source shall be identified to secure repayment of the debt and the annual debt service payments shall be included in the Operating Budget.

The City 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 City's public purposes.

X. POLICY GOALS RELATED TO PLANNING GOALS AND OBJECTIVES

- A. The City is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The City intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the City's annual Operating Budget;
- B. It is a policy goal of the City to protect stakeholders by utilizing conservative financing methods and techniques to obtain the highest practical credit ratings, if applicable, and the lowest practical borrowing costs;
- C. It is a policy of the City to reduce unfunded liabilities for employee pension and other post-employment benefits (OPEB);
- D. The City will comply with applicable State and Federal Law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges; and
- E. When refinancing debt, it shall be the policy goal of the City to achieve, whenever possible and subject to any overriding non-financial policy, minimum aggregate net present value savings of at least [[3%]] of the refunded principal amount.

XI. INTERNAL CONTROL PROCEDURES

When issuing debt, in addition to complying with the terms of this Debt Policy, the City shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds. The City will use GFOA best practices to periodically review this Debt Policy and incorporate changes highlighted by GFOA.

- A. The City will periodically review the requirements of and will remain with the following:

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- i. Federal securities law, including any continuing disclosure undertakings under SEC Rule 15c2-12.
- ii. Any federal tax compliance requirements including without limitation arbitrage and rebate compliance, related to any prior bond issues;
- iii. The City's investment policies as they relate to the investment of bond proceeds;
and
- iv. Government Code section 8855(k) and the annual reporting requirements therein.

The City shall be vigilant in using bond proceeds in accordance with the stated purpose at the time that such debt was issued. The City Manager, Financial Services Director or Chief Financial Officer will monitor the expenditure of bond proceeds to ensure they are used only for the purpose and authority for which the bonds were issued.

XII. AMENDMENT AND WAIVERS OF DEBT POLICY

This Debt Policy shall undergo periodic review and updates as necessary. The review process will incorporate changes in industry best practices, drawing from professional sources such as the California Debt and Investment Advisory Commission (CDIAC), Government Finance Officers Association (GFOA), and California Society of Municipal Finance Officers (CSMFO). Any amendments to this Debt Policy are subject to specific City Council approval.

While adherence to this Debt Policy is required in all applicable circumstances, on rare occasions there might be circumstances when strict adherence to a provision of this Debt Policy is not possible or not in the best interest of the City. If the City staff has determined that a waiver of one or more provisions of this Debt Policy should be considered by the City Council, it will prepare an analysis for the City Council describing the rationale for the waiver and the impact of the waiver on the proposed debt issuance and on stakeholders, if applicable. Upon a majority vote of the City Council, one or more provisions of this Debt Policy may be waived for a debt financing.

The failure of a debt financing to comply with one or more provisions of this Debt Policy shall no way affect the validity of any debt issued by the City in accordance with applicable laws.

XIII. SB 1029 COMPLIANCE

SB 1029, enacted on September 12, 2016 and effective on January 1, 2017, requires issuers to adopt policies addressing each of the five items below:

- A. The purposes for which the debt proceeds may be used.
 - i. Section IV. Acceptable uses of Debt Proceeds
- B. The types of debt that may be issued.

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- i. Section VI. Types of Debt
- C. The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.
 - i. Section IX. Relationship to Capital Improvement Program and Operating Budget
- D. Policy goals related to the issuer's planning goals and objectives.
 - i. Section III. Debt Policy Objective and Section X Policy Goals Related to Planning Goals and Objectives
- E. The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.
 - i. Section XI. Internal Control Procedures