

Introduction

California cities are authorized by State law to use debt financing for specific purposes that promote the public welfare. Debt is typically issued to finance the construction of large public facilities such as infrastructure, buildings, parks, and open space acquisitions, when paying for these types of projects out of current revenues is not feasible.

The City of Folsom has seen tremendous expansion in its population from 36,507 in 1992 to 68,033 at the end of calendar year 2004. With this growth, one of the City's major challenges has been to meet the needs of a growing community in terms of providing City services to a steadily increasing customer base, as well as complying with mandated governmental health, safety, and environmental standards and regulations. The City has used various debt financing instruments to facilitate meeting these challenges.

Debt Management Policy

Debt Management is a major component of the City's fiscal management function. Good debt management ensures that any debt issued by the City is affordable, is appropriate for the type of project, is at the lowest possible interest cost, and is in compliance with applicable laws and regulations. The City of Folsom's Debt Management Policy provides operating guidelines for all the City's major debt transactions. The objectives of the City's policy are to:

- Guide the City Council and management in debt issuance decisions having significant financial impact.
- Maintain appropriate capital assets for present and future needs.
- Promote sound financial management by providing accurate and timely information on the City's financial condition.
- Protect and enhance the City's credit rating.
- Ensure the legal use of City bonding authority through an effective system of financial security and internal controls
- Promote cooperation and coordination with other governments and the private sector in the financing and delivery of services.

Additional Policies Regarding Land-Secured and Conduit Financing

The purpose of the Additional Policies Regarding Land-Secured and Conduit Financing is to facilitate the acquisition and construction of public facilities on commercial, industrial, and residential properties by promoting the health and welfare of developed areas; the orderly development of the City; and the development of needed commercial or industrial property.

The policies consist of guidelines and requirements for such item as:

- Project costs and reimbursement policies
- Agreements required
- Project feasibility information
- Appraisals/Value to lien ratios
- Credit enhancements
- Special tax formulas
- Continuing disclosure and notification requirements

Credit Rating

A major portion of the City's financings has been through the issuance of special assessment district debt. These assessment and Mello-Roos district bonds are land secured financings where developments are not yet completed at the time of issuance, and are therefore not rated.

The City's general obligation bonds are rated A1 by Moody's Investor's Service and A+ by Standard and Poor's. The City's Certificates of Participation (COP's) issued to finance essential facilities such as the 2001 Central District Fire Station are rated A3 by Moody's. COPs issued for non-essential facilities, such as parks are rated in the BBB range. The City has typically opted to purchase bond insurance to enhance its credit rating to AAA. A bond insurance policy guarantees payment of principal and interest on bonds due for payment should the City fail to make a bond payment.

The City is in the process of actively seeking a rating upgrade from the major credit rating agencies based on the City's current financial condition.

Types of Debt Financing Instruments

A. General Obligation Bonds:

The California Constitution provides for the issuance of General Obligation Bonds by cities subject to a two-thirds approval of voters on the bond proposition. General Obligation Bonds are secured by the full faith and credit of the City. Ad valorem taxes are levied on all real property within the City for the payment of annual principal and interest on the bonds.