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 items 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.

B. Lease Revenue Bonds and Certificates of Participation:
Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sales agreement or by a leaseback arrangement with a public entity. The City pledges general operating revenues to pay the lease payments. The lease payments are in turn used to pay principal and interest on the Certificates of Participation. Under State law, these obligations do not constitute indebtedness and are therefore not subject to voter approval. Lease payments may not be accelerated as they are payable only in the year in which used and if occupancy of the leased property is available. The City is obligated to annually budget for the rentals that are due and payable during each fiscal year that it has the use of the leased property.

C. Public Enterprise Revenue Bonds:
Public Enterprise Revenue Bonds are issued to finance facilities for a revenue producing enterprise such as a water or sewer system. California courts have determined that under the State Constitution, cities may issue revenue bonds without a two-thirds voter approval in a bond election because the revenues are not payable from taxes or the general fund of the City. Rather, principal and interest on the bonds is payable from revenues produced by the enterprise including such items as service charges, tolls, connection fees, admission fees, and rents.

D. Special Assessment Districts/Mello-Roos Community Facilities District Bonds:
The City may establish special assessment or Mello-Roos Community Facilities Districts under various sections of State law to issue bonds for the financing of infrastructure and public facilities improvements in connection with land development. The issuance of these bonds is subject to a two-thirds approval of the landowners voting within the proposed district. The security for the bonds is provided by properties with the district. The properties are assessed for amounts proportionate to the benefit received from the improvements financed for the payment of annual principal and interest on the bonds. The City is not liable for the repayment of these bonds, but rather acts as an agent for the property owners/bondholders in collecting and forwarding the special assessments.

Folsom Public Financing Authority

The City of Folsom authorized the formation of a joint powers authority with the Folsom Redevelopment Agency to be known as the Folsom Public Financing Authority in 1988, under Title 1 of the California State Government Code. The Authority is authorized, but not limited, to issue bonds for the purpose of financing facilities and improvements. The Authority provides financing to other funds and agencies of the City on a cost reimbursement basis.

Legal Debt Margin

The Charter of the City of Folsom allows the City by ordinance or resolution to issue debt within the following limits:

- **General Obligation Debt Limit:**
  Not to exceed 10 percent of the assessed valuation of all property taxable by the City;
- **Other Debt Limit:**
  Debt other than voted general obligation bonds shall not exceed 10 percent of the assessed valuation of all property taxable by the City;
- **Definition and Exemption:**
  Debt issued for the purpose of financing or refinancing the acquisition, construction, or completion of public improvements that is not a general obligation of the City, and is secured by a lien upon or levy of a special tax on real property within an identified district.

As of June 30, 2004, the City of Folsom's legal debt margin totaled $638,412,000. The ratio of the City's outstanding General Obligation Bond debt to assessed valuation was 4.7838 percent. The City's assessed value totaled over $6.7 billion.

City of Folsom Legal Debt Margin
June 30, 2005

Assessed Value	$6,704,866,000
Debt Limit--10% of Total Assessed Value	$670,487,000
Amount of Debt Applicable to Limit	$32,075,000
Legal Debt Margin	$638,412,000
Ratio of General Obligation Bond Debt to Assessed Valuati	4.7838%

Summary of Debt Position

		June 30, 2006 Principal Outstanding	2006-07 Bond Payments Principal	Interest	Total	Funding Source
GENERAL OBLIGATION BONDS:						
1993	GO Bonds Series C	$6,645,000	$465,000	$325,725	$790,725	Ad valorem property tax
1993	GO Bonds Series D	8,205,000	495,000	447,858	942,858	Ad valorem property tax
2003	GO Bonds Series A & B Refunding	12,895,000	1,315,000	399,979	1,714,979	Ad valorem property tax
	Total General Obligation Bonds	$27,745,000	$2,275,000	$1,173,561	$3,448,561	
CERTIFICATES OF PARTICIPATION:						
1997	Refunding COPs (Parks & Traffic Sig)	$540,000	$0	$31,725	$31,725	General fund revenues
1999	Refunding COPs FCCF	5,555,000	1,000,000	264,123	1,264,123	CA Dept. of Corrections
1999	COPs (Recreation Facility)	825,000	10,000	48,575	58,575	Rental fees, impact fees
2001	COPs Central Fire Station	3,440,000	110,000	155,531	265,531	General fund
	Total Certificates of Participation	$10,360,000	$1,120,000	$499,954	$1,619,954	
REDEVELOPMENT AGENCY						
1997	RDA Refunding Tax Allocation Bonds	$4,405,000	$455,000	$208,120	$663,120	Property tax increment
2005	RDA Tax Allocation Bonds (Library Proj)	10,190,000	-	442,913	442,913	Property tax increment
	Total Redevelopment Agency	$14,595,000	$455,000	$651,033	$1,106,033	
FOLSOM PUBLIC FINANCING AUTHORITY:						
1997	Revenue Bonds Srs A (Prairie Oaks)	$11,325,000	$380,000	$756,768	$1,136,768	Special Assessments
1997	Revenue Bonds Srs B (P Oaks & TS)	2,245,000	70,000	156,860	226,860	Special Assessments
1998	Water Revenue Bonds (Water Project)	17,020,000	435,000	809,171	1,244,171	Water fund revenues
1998	Revenue Bonds (Hannaford Cross)	2,170,000	95,000	116,978	211,978	Special Assessments
1999	Revenue Bonds (Legends, Cobble Hills, Ric	4,830,000	215,000	248,284	463,284	Special Assessments
2002	Revenue Bonds (City Hall & Comm Ctr)	13,450,000	915,000	565,243	1,480,243	General fund revenues
2003	Reassessment Revenue Bonds (Auto Plaza)	6,565,000	290,000	306,819	596,819	Special Assessments
2004	Revenue Bonds, Snr A (CFD 7 & 8)	14,225,000	630,000	629,148	1,259,148	Special Assessments
2004	Revenue Bonds, Sers B (CFD 7)	7,555,000	335,000	363,791	698,791	Special Assessments
2005A	Water Revenue Bonds (Water Treatment)	13,885,000	265,000	612,946	877,946	Water fund revenues
	Total Public Financing Authority	$93,270,000	$3,630,000	$4,566,006	$8,196,006	

Summary of Debt Position

		June 30, 2006 Principal Outstanding	2006-07 Bond Payments Principal	Interest	Total	Funding Source
ASSESSMENT DISTRICTS:						
1989	Blue Ravine Oaks	$605,000	$40,000	$42,955	$82,955	Special Assessments
1990	Hannaford Crossing	2,010,000	85,000	126,430	211,430	Special Assessments
1992	Natoma Station	295,000	15,000	21,088	36,088	Special Assessments
1992	Prairie Oaks	13,310,000	425,000	940,255	1,365,255	Special Assessments
1993	Lake Natoma Shores	445,000	45,000	27,463	72,463	Special Assessments
1993	Legends	510,000	25,000	28,779	53,779	Special Assessments
1994	Cobble Hills Ridge	1,470,000	75,000	80,610	155,610	Special Assessments
1995	Ridgeview	1,460,000	65,000	86,576	151,576	Special Assessments
1995	Cresleigh Natoma	1,050,000	40,000	63,279	103,279	Special Assessments
2003	Folsom Auto Plaza (Formerly AD 89-1)	6,545,000	250,000	362,730	612,730	Special Assessments
	Total Assessment Districts	$27,700,000	$1,065,000	$1,780,164	$2,845,164	
COMMUNITY FACILITY DISTRICTS:						
1997	Willow Creek	$830,000	$830,000	$19,090	$849,090	Special Assessments
1997	Natoma Station	15,335,000	710,000	769,813	1,479,813	Special Assessments
1998	Folsom Heights	2,275,000	180,000	119,996	299,996	Special Assessments
1998	Broadstone	3,235,000	185,000	154,628	339,628	Special Assessments
2004	Broadstone II	17,225,000	780,000	790,579	1,570,579	Special Assessments
1999	Broadstone II	14,520,000	445,000	835,500	1,280,500	Special Assessments
2004	Parkway	4,555,000	185,000	202,360	387,360	Special Assessments
1996	Willow Creek South	1,855,000	-	136,806	136,806	Special Assessments
1999	Empire Ranch	39,245,000	910,000	2,611,933	3,521,933	Special Assessments
2003R	Empire Ranch	23,880,000	45,000	1,341,851	1,386,851	Special Assessments
1998	Willow Springs	10,025,000	290,000	557,208	847,208	Special Assessments
2002	Parkway II	18,020,000	110,000	1,100,299	1,210,299	Special Assessments
	Total Community Facilities Districts	$151,000,000	$4,670,000	$8,640,062	$13,310,062	