

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 70,835 at the end of calendar year 2006. 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, 2006, the City of Folsom’s legal debt margin totaled \$286,282,363. The ratio of the City’s outstanding General Obligation Bond debt to assessed valuation was .3313 percent. The City’s assessed value totaled over \$8.3 billion.

City of Folsom Legal Debt Margin

June 30, 2006

Assessed Value	\$8,374,063,000
Debt Limit--3.75% of Total Assessed Value	\$314,027,363
Amount of Debt Applicable to Limit	\$27,745,000
Legal Debt Margin	\$286,282,363
Ratio of General Obligation Bond Debt to Assessed Valuat	0.3313%
Ratio of General Obligation Bond Debt to Debt Limit	8.8352%

*The City is currently in the process of refinancing several bond issues. At the time of printing no additional information was available.

Summary of Debt Position

		June 30, 2007		2007-08 Bond Payments			Funding Source
		Principal		Principal	Interest	Total	
		Outstanding					
GENERAL OBLIGATION BONDS:							
1993	GO Bonds Series C	\$ 6,180,000	\$ 485,000	\$ 303,400	\$ 788,400		Ad valorem property tax
1993	GO Bonds Series D	7,710,000	525,000	420,318	945,318		Ad Valorem property tax
2003	GO Bonds Series A & B Refunding	11,580,000	1,350,000	374,298	1,724,298		Ad valorem property tax
Total General Obligation Bonds		\$ 25,470,000	\$ 2,360,000	\$ 1,098,015	\$ 3,458,015		
CERTIFICATES OF PARTICIPATION:							
1997	Refunding COPs (Parks & Traffic Sig)	\$ 540,000	\$ -	\$ 31,725	\$ 31,725		General Fund revenues
1999	Refunding COPs FCCF	4,555,000	1,055,000	212,220	1,267,220		CA Dept. of Corrections
1999	COPs (Recreation Facility)	805,000	10,000	47,425	57,425		Rental fees, impact fees
2001	COPs Central Fire Station	3,330,000	110,000	152,231	262,231		General fund
Total Certificates of Participation		\$ 9,230,000	\$ 1,175,000	\$ 443,601	\$ 1,618,601		
REDEVELOPMENT AGENCY							
1997	RDA Refunding Tax Allocation Bonds	\$ 3,950,000	\$ 490,000	\$ 186,026	\$ 676,026		Property tax increment
2005	RDA Tax Allocation Bonds (Library Proj.)	10,190,000	-	442,913	442,913		Property tax increment
2006	RDA TABS (RR Block Parking Structure)	16,945,000	-	725,632	725,632		Property tax increment
Total Redevelopment Agency		\$ 31,085,000	\$ 490,000	\$ 1,354,571	\$ 1,844,571		
FOLSOM PUBLIC FINANCING AUTHORITY:							
1997	Revenue Bonds Srs A (Prairie Oaks)	\$ 10,815,000	\$ 420,000	\$ 722,925	\$ 1,142,925		Special Assessments
1997	Revenue Bonds Srs B (P Oaks & TS)	2,150,000	85,000	150,135	235,135		Special Assessments
1998	Water Revenue Bonds (Water Project)	16,585,000	450,000	791,580	1,241,580		Water fund revenues
1998	Revenue Bonds (Hannaford Cross)	2,060,000	95,000	111,360	206,360		Special Assessments
1999	Ridgeview, Cresleigh)	4,615,000	220,000	238,060	458,060		Special Assessments
2002	Revenue Bonds (City Hall & Comm Ctr)	12,535,000	940,000	536,669	1,476,669		General fund revenues
2003	Reassessment Revenue Bonds (Auto Plaza)	6,275,000	305,000	298,619	603,619		Special Assessments
2004	Revenue Bonds, Snr A (CFD 7 & 8)	13,595,000	650,000	609,948	1,259,948		Special Assessments
2004	Revenue Bonds, Sers B (CFD 7)	6,945,000	345,000	337,645	682,645		Special Assessments
2005A	Water Revenue Bonds (Water Treatment)	13,620,000	275,000	605,509	880,509		Water fund revenues
Total Public Financing Authority		\$ 89,195,000	\$ 3,785,000	\$ 4,402,449	\$ 8,187,449		

Summary of Debt Position

		June 30, 2007 Principal		2007-08 Bond Payments			Funding Source
		Outstanding	Principal	Interest	Total		
ASSESSMENT DISTRICTS:							
1989	Blue Ravine Oaks	\$ 565,000	\$ 50,000	\$ 39,693	\$ 89,693	Special Assessments	
1990	Hannaford Crossing	1,910,000	85,000	120,407	205,407	Special Assessments	
1992	Natoma Station	280,000	15,000	20,000	35,000	Special Assessments	
1992	Prairie Oaks	12,730,000	485,000	899,088	1,384,088	Special Assessments	
1993	Lake Natoma Shores	400,000	45,000	24,538	69,538	Special Assessments	
1993	Legends	485,000	30,000	27,519	57,519	Special Assessments	
1994	Cobble Hills Ridge	1,395,000	75,000	77,449	152,449	Special Assessments	
1995	Ridgeview	1,395,000	65,000	83,521	148,521	Special Assessments	
1995	Cresleigh Natoma	1,010,000	45,000	61,280	106,280	Special Assessments	
2003	Folsom Auto Plaza (Formerly AD 89-1)	6,295,000	275,000	347,899	622,899	Special Assessments	
Total Assessment Districts		\$ 26,465,000	\$ 1,170,000	\$ 1,701,393	\$ 2,871,393		
COMMUNITY FACILITY DISTRICTS:							
1997	Willow Creek	\$ -	\$ -	\$ -	\$ -	Special Assessments	
1997	Natoma Station	14,625,000	740,000	736,093	1,476,093	Special Assessments	
1998	Folsom Heights	2,095,000	190,000	110,466	300,466	Special Assessments	
1998	Broadstone	3,050,000	195,000	145,980	340,980	Special Assessments	
2004	Broadstone II	16,170,000	800,000	752,003	1,552,003	Special Assessments	
1999	Broadstone II	13,815,000	470,000	797,031	1,267,031	Special Assessments	
2004	Parkway	4,370,000	195,000	196,660	391,660	Special Assessments	
1996	Willow Creek South	1,855,000	115,000	132,566	247,566	Special Assessments	
1999	Empire Ranch	38,335,000	1,005,000	2,556,843	3,561,843	Special Assessments	
2003R	Empire Ranch	23,835,000	100,000	1,339,945	1,439,945	Special Assessments	
1998	Willow Springs	9,735,000	325,000	541,209	866,209	Special Assessments	
2002	Parkway II	17,910,000	140,000	1,094,655	1,234,655	Special Assessments	
Total Community Facilities Districts		\$ 145,795,000	\$ 4,275,000	\$ 8,403,450	\$ 12,678,450		