Debt Management Policy

OBJECTIVE

The Debt Management Policy formally establishes parameters for issuing debt and managing a debt portfolio, which encompasses the City's specific capital improvement needs, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. The policies outlined in the Debt Management Policy are not goals or a list of rules to be applied toward the City's debt issuance; rather, these policies should be utilized as tools to ensure informed decision making and that adequate financial resources are available to support the City's long-term capital needs. Specifically, the policies outlined in this document are intended to assist the City in the following:

- Evaluating critical debt issuance options
- Promoting sound financial management
- Providing accurate and timely information on financial conditions
- Maintaining appropriate capital assets for present and future needs
- Protecting and enhancing the City's credit rating
- Ensuring the legal use of City bonding authority through an effective system of financial management and internal controls
- Promoting cooperation and coordination with other public entities and the private sector in the financing and delivery of services

POLICIES

1) Approach to Debt Management

In managing its debt, the City's greatest priorities are to:

- Achieve the lowest cost of capital,
- Ensure high credit quality,
- Ensure full and timely payment of debt,
- Maintain full compliance with financial disclosure and reporting,
- Maintain a prudent level of financial risk,
- Assure access to credit markets,
- Preserve financial flexibility, and
- Utilize local and disadvantaged banking and financial firms, when possible, in the sale of City debt.
- Structure its general obligation bond issuances with the goal of keeping the ad valorem property tax rate levied by the City during each year the City's general obligation bonds are outstanding at or below the fiscal year 2022-2023 tax rate of 0.2035%, as projected by the City as of the date each series of bonds is issued.

A) Capital Plan Integration

A sound debt management program begins with a well-devised capital plan. Therefore, a multi-year capital plan, which integrates pay-as-you-go projects and the projects to be financed, is critical. The multi-year capital plan (the "Capital Plan") shall be for a minimum of a 5-year period and shall be updated and presented to the City Council at least once annually. The Capital Plan shall include the following elements:

- Qualified capital projects and their projected costs
- Description of all sources of funds
- Availability of current revenues (non-debt sources for pay-go and debt service), as projected in the City's multi-year forecast
- Timing of capital projects
- A financing plan or methodology and debt service requirements

B) Review of Capital Plan

It is anticipated that the Capital Plan will be modified from time to time. Modifications to the Capital Plan shall be accompanied by a report from the City's Treasurer or designee and Budget Administrator that discusses the impact of the proposed borrowing on the Capital Plan.

C) Qualified Capital Projects

Generally, the City will not debt finance capital improvements with a cost less than $250,000. The City shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of the facility throughout its life.

D) Cash Financing of Capital Outlays

To demonstrate the City's commitment to a continued capital program, ensure careful consideration of capital expenditure levels, and enhance the City's overall credit worthiness, the City shall seek to fund at least between two and five percent of the overall capital program from current resources, depending upon the specific projects and annual budgetary constraints.

E) Authorization of Issuance

Debt issuance for capital projects shall not be considered unless such issuance has been incorporated into the Capital Plan.

F) Affordability Targets

The ratios, standards, and limits identified below are primarily intended to restrict the use of debt financing in order to facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the City's annual operations.

i) **General Fund Debt Capacity –** The City's approach to its General Funds-secured financings is to ensure its long-term financing commitments are affordable and do not create undue risk or burden and maintain continued market access at the lowest cost of borrowing.

As such, the Debt Policy establishes debt affordability for the City, reflecting best practices of other large California cities and the debt ratios used by the rating agencies when evaluating city credits. Debt ratios are defined as annual debt service payments as a percentage of General Fund and other revenues. Below are the debt capacity ratio ranges, it will be the City's goal of maintain a "low" debt ratio:

- Low debt ratio <5%
- Moderate debt ratio 5% - 15%
- High debt ratio >15%

ii) **Capacity for Voter-Approved Indebtedness** – The City will maintain a 10-year forward debt capacity schedule that incorporates assumptions of growth in assessed valuation and estimates of new debt issuance and retirement, taking into account the City's goal of keeping the ad valorem property tax rate levied by the City to service its voter- approved indebtedness during each year the City's general obligation bonds are outstanding no higher than the Fiscal Year 2022-2023 tax rate of 0.2035%, as such tax rate is projected by the City on the date of each series of bond issuance. To maintain that limit on the tax rate for voter-approved debt, the City will issue new bonds as older bonds are retired and/or as the tax base grows. Such schedule shall be available to any interested parties upon request.

In connection with each proposed issuance by the City of general obligation bonds, the Treasury Bureau shall prepare a projection of the impact of proposed bonds on the ad valorem property tax that is projected to be levied by the City during each year the City's general obligation bonds are outstanding. In the event the Director of Finance, based on such projections, determines that a proposed issuance of general obligation bonds will cause the ad valorem property tax that is projected to be levied by the City in any year the City's general obligation bonds are outstanding to exceed the Fiscal Year 2022-2023 tax rate of 0.2035%, the Director of Finance shall prominently state so in the staff report for such bonds and provide a rationale for issuing such bonds notwithstanding such projections. Any approval of general obligation bonds or other bonds by the Council, or the issuance of said bonds by the City, that is not consistent with this Policy shall constitute a waiver hereof.

iii) **Self-supporting Debt** – In some cases, the City will issue debt for which there is an identified repayment source. For debt to be characterized as self-supporting, the repayment source must support the issue through its maturity. Bond issues where interest has been capitalized are not considered to be self-supporting.

iv) **Overlapping Debt** – An analysis of overlapping debt (taking into consideration the tax-supported debt of the City (primarily general obligation and lease revenue bonds) as well as debt from all other jurisdictions that tax City taxpayers, will be taken into consideration in planning debt issuance.

v) **Credit Quality –** All City debt management activities will be conducted to in hopes of receiving the highest credit ratings possible for each issue that meets the City's financing objectives, and to maintain the current credit ratings assigned to the City's debt by the major credit rating agencies.

2) Standards for Use of Debt Financing

The City's debt management program will promote the use of debt only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing. Whenever possible, the debt shall be self-supporting, including general obligation debt supported by a supplemental property tax override; lease revenue bonds that, while secured by the General Fund, are expected to be repaid from an identified source of revenues; or special revenue debt with no recourse to the General Fund.

A) **Long-Term Capital Projects.** Debt will be used primarily to finance long-term capital projects — paying for the facilities or equipment over some or all of their useful life and concurrent with the stream of benefits from these facilities. The City will consider the debt capacity in determining the use of debt financing.

B) **Special Circumstances for Non-Capital-Project Debt Issuance.** Debt may be used in special circumstances for projects other than long-term capital projects such as pension obligations, only after careful policy evaluation by the City.

C) **Debt Financing Mechanisms.** The City will evaluate the use of all financial alternatives available, including, but not limited to long-term debt, pay-as-you-go, joint financing, reserve fund releases, lease-purchase, authority sponsored debt, special districts, community facility districts, special assessments, Mello-Roos bonds, state and federal aid, certificates of participation, tax increment, private placement, master lease programs, and interfund borrowing. The City will utilize the most cost advantageous financing alternative available while limiting the General Fund's risk exposure.

3) Financing Criteria

When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

A) **Long-Term Debt.** Long-term borrowing may be used to finance the acquisition or improvement of land, facilities, or equipment. The City may issue long-term debt (e.g., general obligation bonds, revenue bonds, conduit revenue bonds, tax increment bonds, lease obligations, or variable rate bonds) when required capital improvements cannot be financed from current revenues. The proceeds derived from long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that the obligations do not exceed the expected useful life of the respective projects.

The City shall not use any debt, lease financing or other instruments of installment repayments with terms longer than two years to finance its operating costs. Exceptions to the policy may be made on a case-by-case basis by the Council.

B) **Short-Term Debt.** Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates). The City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal, subject to the following policies:

i) **Bond Anticipation Notes** (BANs) may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall mature not more than 3 years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.

ii) **Tax and Revenue Anticipation Notes** (TRANs) shall be issued only to meet projected cash flow needs to better match the timing of revenues and expenditures, including prepayment of the City's retirement obligations to PERS. Tax-exempt TRANs will be issued only if there is a finding by bond counsel that the sizing of the issue fully conforms to Federal IRS requirements and limitations.

iii) **Lines of Credit** or other bank credit facilities shall be considered as an alternative to other short- term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

iv) **Other Short-Term Debt**, including commercial paper notes, may be used.

C) **Lease-Purchase Debt.** Lease-purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation. In order to reduce the cost of lease borrowing and to improve control over leases, the City may adopt a master lease program.

D) **Variable Rate Debt.** To maintain a predictable debt service burden, the City will typically give preference to debt that carries a fixed interest rate. Variable rate debt, which is synthetically fixed, shall be considered fixed rate debt through the maturity of the swap. The City, however, may consider unhedged variable rate debt in certain instances, such as:

i) High Interest Rate Environment. Current interest rates are above historic average trends, and the benefits of the lower current variable interest rate justifies the risk of rates rising further. Such debt can be easily refunded once interest rates are lower.

ii) Variable Revenue Stream. The revenue stream for repayment is variable and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.

iii) Adequate Safeguards Against Risk. Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate swaps, interest rate caps and the matching of assets and liabilities.

iv) As a Component to Synthetic Fixed Rate Debt. Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt. Prior to using synthetic fixed rate debt, the City shall certify that the interest rate cost is lower than traditional fixed rate debt.

v) Variable Rate Debt Capacity. Consistent with rating agency guidelines, the percentage of variable rate debt outstanding (not including debt which has been converted to synthetic fixed rate debt) shall be hedged by cash flow liquidity.

E) **Special Limited Obligations.** Special limited obligations are issued by the City to make proceeds available to finance the acquisition, construction, and/or improvement of capital assets and/or environmentally sustainable projects. The obligations represent special limited obligations of the City. Formation of a Community Facilities Districts ("CFD") may be initiated by a petition of one or more property owners or by the City through a resolution adopted by the City Council. On June 17, 2015, the City adopted Resolution No. 85664 C.M.S. the Local Goals and Policies for Special Assessment and Mello-Roos Community Facilities District Financing (the "Local Goals and Policies"). The Local Goals and Policies is intended to provide guidelines for formation and financing.

Mello-Roos community facilities districts ("CFDs")

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") was enacted by the State to help growing areas finance certain essential public facilities that typically accompany major development projects. The Mello-Roos Act permits a public agency to create a defined area within its jurisdiction and, by a two-thirds majority vote of the registered voters within the district (or, if there are fewer than 12 registered voters, through a landowner vote), levy a special tax within the district to pay directly for public improvements or services, or pay debt service on bonds issued to finance improvements. Any bonds issued by the CFD are secured by the special tax on the real property within the district.

Assessment District Financing

The Municipal Improvement Act of 1913 provides for a local agency to form an Assessment District to finance certain infrastructure, including roadways, water and sewer facilities, storm drains, and other improvements often required in connection with new development. Assessment Districts formed under this Act may also finance, but in very limited circumstances, maintenance services. Assessment Districts may also be formed to provide for, among other things, the undergrounding of overhead utility lines or the abatement of hazardous geological conditions, upon a successful petition signed by owners of property who want the improvement.

An Assessment District must include all properties that will benefit directly from the improvements to be constructed, and formation of the district requires an election in which at least 50% of property owners vote in favor of the district. If an Assessment District is formed, the City may levy assessments that can be utilized to directly finance the public improvements, or may be pledged to support debt service on bonds, which may be issued under the Improvement Bond Act of 1915. The assessments that are levied upon each parcel must be based upon the direct and special benefit received by the property.

F) **Other Obligations.** There may be special circumstances when other forms of financing are appropriately utilized by the City. The Treasurer will evaluate such proposed transactions on a case-by-case basis. Such other forms include, but are not limited to, pension obligation bonds, long-term concession agreements, and non-enterprise revenue bonds.

4) Terms and Conditions of Bonds

The City shall establish all terms and conditions relating to the issuance of bonds, and will control, manage, and invest all bond proceeds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

A) Term. All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event greater than thirty years unless otherwise beneficial.

B) **Capitalized Interest.** Certain types of financings such as lease-secured financings may require the use of capitalized interest from the issuance date until the City has beneficial use and occupancy of the financed project. Interest shall not be funded (capitalized) beyond a period of three years, or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.

C) Debt Service Structure. Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. The City shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to levelize total debt service when considering existing debt.

D) Call Provisions. In general, the City's securities will include a call feature, which is no later than 10 years from the date of delivery of the bonds. The City will avoid the sale of non-callable bonds absent careful evaluation by the City of the value of the call option.

E) Original Issue Discount. An original issue discount will be permitted only if the City determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project identified by the bond documents.

F) Deep Discount Bonds. Deep discount bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancings as a result of the lower-than-market coupon.

G) Derivative Structures. When appropriate, the City will consider the use of derivative structures as a hedge against future interest rate risk and as a means for increasing financial flexibility. The City will avoid the use of derivative structures for speculative purposes. The City will consider the use of derivative structures when it is able to gain a comparative borrowing advantage of ten or more basis points and is able to reasonably quantify and understand potential risks.

The City shall not use derivative structures for the sole purpose of generating operating or capital proceeds, without a determination that such structure will accrue interest rate and borrowing costs benefits for the City. Aside from the current outstanding 1998 Swap, the City has placed a moratorium on any future use of Swaps in connection with debt financing.

For more information on "swaps", please refer to the City's Swap Policy.

H) **Multiple Series.** In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and which will generally be subject to the earliest or most senior lien.

5) Credit Enhancements

The City will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

A) Bond Insurance. The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

i) **Provider Selection.** The Treasurer or designee will solicit quotes for bond insurance from interested providers, or in the case of a competitive sale submit an application for pre-qualification on insurance. In a negotiated sale, the City Administrator or designee and/or the Treasurer or designee shall have the authority to select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the City. The winning bidder in a competitive sale will determine whether it chooses to purchase bond insurance for the issue.

B) Debt Service Reserves. When required to secure the lowest net cost of funds, a reserve fund equal to no greater than the least of ten percent (10%) of the original principal amount of the bonds, one hundred percent (100%) of the maximum annual debt service, and one hundred and twenty five percent (125%) of average annual debt service, or, if permitted, 10 percent (10%) of par value of bonds outstanding (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies.

The City may purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

C) Letters of Credit. The City may enter into a letter-of-credit (“LOC”) agreement when such an agreement is deemed prudent and advantageous, such as to provide liquidity when the City issue variable rate bonds and commercial paper. The City Administrator or designee and/or the Treasurer or designee shall prepare (or cause to be prepared) and distribute to qualified financial institutions as described in paragraph 2 below, a request for qualifications or proposal which includes terms and conditions that are acceptable to the City.

i) **Provider Selection.** Only those financial institutions with long-term ratings greater than or equal to that of the City or short-term ratings of VMIG 1/A-1/F1, by Moody’s Investors Service, Standard & Poor’s Ratings Services or Fitch Ratings, respectively, may be solicited.

ii) **Selection Criteria.** The selection of LOC providers will be based on responses to a City-issued request for qualifications; criteria will include, but not be limited to, the following:

- Ratings at least equal to or better than the City’s
- Evidence of ratings (including “Outlook”)
- Trading value relative to other financial institutions
- Terms and conditions acceptable to the City; the City may provide a term sheet along

with the request for qualifications to which the financial institution may make modifications
- Representative list of clients for whom the bank has provided liquidity facilities
- Fees, specifically, cost of LOC, draws, financial institution counsel and other administrative charges

6) Refinancing Outstanding Debt

The Treasurer or designee shall have the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or municipal advisory firms. In most cases, the goal of refunding or restructuring the debt portfolio is to reduce the City's annual debt service obligations. The Treasurer or designee will consider the following issues when analyzing possible refunding opportunities:

A) Debt Service Savings. The City establishes a minimum savings threshold goal of three percent (3%) of the refunded bond principal amount or at least $500,000, whichever is less, in present value savings (including foregone interest earnings on invested reserves) unless there are legal or restructuring reasons for defeasance. Refundings which produce a net savings of less than three percent (3%) will be considered on a case- by-case basis. The present value savings will be net of all costs related to the refinancing. The decision to take savings on an upfront or deferred basis must be explicitly approved by the City Administrator or designee, or the Treasurer or designee.

B) Restructuring. The City will refund debt when in its best interest to do so. Refundings may include restructuring to meet unanticipated revenue expectations, terminate swaps, achieve cost savings, mitigate irregular debt service payments, release reserve funds, or remove unduly restrictive bond covenants.

C) Term of Refunding Issues. The City may refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

D) Escrow Structuring. The City shall utilize the least costly securities available in structuring refunding escrows. The City will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate will be required from a third-party agent who is not a broker-dealer, stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations ("SLGS"), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or municipal advisor sell escrow securities to the City from its own account.

E) Arbitrage. Arbitrage regulations apply to all of the City's tax-exempt financings. The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refundings. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

7) Methods of Issuance

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. General Obligation Bonds and Tax and Revenue Anticipation Notes will be issued on a competitive basis unless otherwise determined on a case-by-case basis that a negotiated sale is the most advantageous.

A) Competitive Sale. In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest bid as long as the bid adheres to the requirements set forth in the published official notice of sale.

B) Negotiated Sale. In a negotiated sale, the terms and price are negotiated by the City and the selected underwriter(s). The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:

- Bonds issued as variable rate demand obligations
- A complex structure which may require a strong pre-marketing effort
- Size of the issue which may limit the number of potential bidders
- Market volatility is such that the City would be better served by flexibility in timing its sale in changing interest rate environments

C) Private Placement. From time to time the City may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance.

D) Conduit Debt Issuance. The City's may assist non-profit organizations in securing conduit financing through agencies such as California Statewide Community Development Authority, the California Municipal Finance Authority, or various authorities created by the State. Conduit Debt limitations may reflect the right of the issuing Government to approve the borrower's creditworthiness, including a minimum credit rating, and the purpose of the borrowing issue. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the Government or marketability of the Government's own direct debt.

The City may issue conduit revenue bonds that are not a debt or obligation of the City itself but are obligations of a private borrower. No funds of the City will be pledged to or made available for the repayment of any conduit bonds; Conduit debt is not a liability of the City. This arrangement is typically used for a qualified non-profit organization and multi-family housing projects. Notwithstanding other credit requirements of the City, such conduit revenue bonds may be issued and sold with or without a credit rating, provided that for any bond with a rating lower than "A", the following conditions shall be met:

- Bonds shall be issued only in denominations of not less than two-hundred and fifty thousand dollars;

- Bonds shall be eligible for purchase only by "qualified institutional buyers" as defined in Rule 144A of the Securities Act of 1933;

- Bonds shall be sold only to buyers who execute a standard form investor letter containing, among other things, representations of the buyer as sophistication as an investor and its familiarity with the transaction.

The role of the City in these instances is to hold a Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) hearing. This Act requires the local legislative body of the local agency in which the project is located to notice and conduct a public hearing. Request for a TEFRA hearing is made to the Treasury Bureau, who will schedule the matter. The Treasury Bureau holds this hearing to allow for the public to voice any objections to the proposed project financing. If no objection received during the hearing, the Mayor may approve the financing by executing the TEFRA Approval Certificate.

E) **Issuance Method Analysis.** The City shall evaluate each method of issuance on a net present value basis.

F) **Feasibility Analysis.** Issuance of self-supporting revenue bonds will be accompanied by a finding that demonstrates the projected revenue stream's ability to meet future debt service payments.

G) **Reporting to California Debt and Investment Advisory Commission (CDIAC).** State law requires any state or local government debt issuer to provide to CDIAC (1) a report of the proposed issuance no later than 30 days prior to the sale of any debt issue, (2) a report of final sale no later than 21 days after the sale, and (3) an annual report for any issue of debt for which the issuer has submitted a report of final sale.

8) Market Relationships Debt Administration

A) **Rating Agencies and Investors.** The City Administrator or designee and/or the Treasurer or designee shall be responsible for maintaining the City's relationships with the rating agencies rating its bonds. The City may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the City Administrator or designee, the Treasurer or designee and the Budget Administrator shall: (1) meet with credit analysts when requested, and (2) prior to each competitive or negotiated sale of bonds for which the City seeks a rating, offer conference calls with agency analysts in connection with the planned sale.

B) **Continuing Disclosure.** The City shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within nine (9) months of the close of the fiscal year. The inability to make timely filings must be disclosed and would be a negative reflection on the City. While also relying on timely audit and preparation of the City's annual report, the Treasurer or designee will ensure the City's timely filing with the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") repository or the designated repository at the time of reporting.

C) **Rebate Reporting.** The use of bond proceeds and their investments must be monitored to ensure compliance with arbitrage restrictions. Existing regulations require that issuers calculate annual rebates, if any, related to each bond issue, with rebate, if due, paid every five years. Therefore, the Treasurer or designee shall ensure that proceeds and investments are tracked in a manner that facilitates accurate calculation, calculations are completed, and rebates, if any, are made in a timely manner.

D) **Other Jurisdictions.** From time to time, the City will issue bonds on behalf of other public or private entities ("conduit" issues). While the City will make every effort to facilitate the desires of these entities, the Treasurer or designee will ensure that the highest quality financings are done, and that the City is insulated from all risks.

E) **Record-Keeping.** All debt related records shall be maintained within the Treasury Bureau. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, trustee reports, leases, etc., for all City debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice (transcripts may be in hard copy or stored on CD- ROM). The Treasury Bureau will maintain all available documentation for outstanding debt and will develop a standard procedure for archiving transcripts for any new debt.

F) **Internal Control Procedures.** The City shall implement internal control procedures to ensure that the proceeds of bonds and debt issuance are directed to the intended use. 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 Treasury Bureau will periodically review the requirements of and will remain in compliance with the following:

- Any continuing disclosure undertakings under SEC Rule 15c2-12,
- Any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- The Issuer's investment policies as they relate to the investment of bond proceeds.

Proceeds of debt will be held either (a) by a third-party trustee, fiscal agent, or escrow agent which will disburse such proceeds to or upon the submission of one or more written requisitions by the Director of Finance or his/her designee, or (b) in those cases where it is not reasonably possible for the proceeds of debt to be held by a third-party trustee, proceeds shall be held and accounted for in a separate fund or account. The City shall retain records of expenditures of proceeds through the final payment date for the debt.

G) **Rebate Policy and System.** The City will accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the City is in compliance with all debt covenants, and with State and Federal laws. The City will maximize the interest earnings on all funds within the investment parameters set forth in each respective indenture. The City will calculate and report interest earnings that relate to Internal Revenue Code rebate, yield limits, and arbitrage.

9) Fees

The City will charge an administrative fee equal to direct costs plus indirect costs as calculated by the City's OMB A87 model to reimburse its administrative costs incurred in debt issuance on behalf of other governmental entities.

10) Consultants

The City shall select its primary consultant(s) by competitive process through a Request for Proposals (RFP), however, if there are unforeseen events that necessitate immediate action including but not limited to redemption, defeasance, or restructuring to prevent the City from experiencing further losses, the City Administrator or designee and/or the Treasurer or designee can select a consultant without using the RFP process. In addition, the City should be encouraged to use local and disadvantaged banks and financial firms, when possible.

A) **Selection of Financing Team Members.** Final approval of financing team members will be provided by the City Council.

i) **Selection of Underwriter:** For any issue of debt, financing or debt instrument issued through negotiated sale, the City shall select the underwriter through a request for proposal process, when appropriate. The request for proposal will be distributed to qualified candidates to determine the level of experience as well as fees in the proposed type of financing.

(a) **Senior Manager Selection.** The Treasurer or designee shall recommend to the City Administrator or designee the selection of a senior manager for a proposed negotiated sale. Solicited or unsolicited proposals or statements of qualifications will be used to determine the selection and appointment of the senior managers and co-managers on the debt issuances. The criteria for selection as reflected in the RFP or RFQ shall include but not be limited to the following:

- The firm’s ability and experience in managing similar transactions
- Prior knowledge and experience with the City
- The firm’s willingness to risk capital and demonstration of such risk
- The firm’s ability to sell bonds
- Quality and experience of personnel assigned to the City’s engagement
- Financing plan presented

(b) **Co-Manager Selection.** Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City’s bonds.

(c) **Selling Groups.** The City may establish selling groups in certain transactions. To the extent that selling groups are used, the City Administrator or designee and/or the Treasurer or designee at his or her discretion, may make appointments to selling groups from within the pool of underwriters or from outside the pool, as the transaction dictates.

(d) **Underwriter’s Discount.** All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter’s counsel will be established and communicated to all parties by the Treasurer or designee. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

(e) **Evaluation.** The City and/or Municipal Advisor will evaluate each bond sale after its completion to assess the following: costs of issuance including underwriters’ compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

(f) **Syndicate Policies.** For each negotiated transaction, syndicate policies will be prepared that will describe the designation policies governing the upcoming sale. The Treasurer or designee or Municipal Advisor shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.

(g) **Designation Policies.** To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:

- Equitably allocate bonds to other managers and the selling group
- Comply with MSRB regulations governing the priority of orders and allocations
- Within ten working days after the sale date, submit to the Treasurer or designee a detail of orders, allocations and other relevant information pertaining to the City's sale

(h) **Selection of Underwriter's Counsel.** In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the lead underwriter.

ii) Selection of Municipal Advisor: The City shall conduct a request for qualifications from potential candidates every three years to establish a pool of qualified municipal advisors for each of the following areas:

The City Administrator or designee and/or the Treasurer or designee will make recommendations for municipal advisors and the City shall utilize the services of qualified applicants in the pool on a rotational basis, as applicable, for any issue of debt, financing or debt instrument.

Selection of the City's municipal advisor(s) and municipal advisor pool shall be based on, but not limited to, the following criteria:

- Experience in providing consulting services to complex issuers
- Knowledge and experience in structuring and analyzing complex issues
- Experience and reputation of assigned personnel
- Fees and expenses

B) **Municipal Advisory Services.** Municipal advisory services provided to the City shall include, but shall not be limited to the following:

- Evaluation of risks and opportunities associated with debt issuance
- Monitoring marketing opportunities
- Evaluation of proposals submitted to the City by investment banking firms
- Structuring and pricing
- Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.)
- Advice, assistance and preparation for presentations with rating agencies and investors
- Assist in the preparation and review of legal and financing documents in coordination with

the financing team in connection with the financing

C) **Bond Counsel Services.** City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all constitutional and statutory requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The City will then make recommendations to the City Attorney's Office where they will review the recommendations. Compensation will vary based on the complexity of the transaction.

D) **Disclosure Counsel Services.** For all public sales of debt, the City will retain the services of disclosure counsel to prepare the official statement. The Finance Director/Treasurer will also determine whether to select another law firm to provide the services of disclosure counsel, or to assign such duties to bond counsel.

E) **Disclosure by Financing Team Members.** All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests, or which could reasonably be perceived as a conflict of interest.

F) **Conflicts of Interest.** The City also expects that its municipal advisor will provide the City with objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.

HISTORY

- Debt Policy
  Resolution No. 89833 C.M.S., adopted by City Council on July 18, 2023

- Local Goals and Policies for Land-Secured Financing
  Resolution No. 85664 C.M.S., adopted by City Council on June 17, 2015

Rating Scale:

Moody's		S&P		Fitch		Rating description	
Long-term	**Short-term**	**Long-term**	**Short-term**	**Long-term**	**Short-term**		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment-grade
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA−		AA−			
A1		A+	A-1	A+	F1	Upper medium grade	
A2		A		A			
A3	P-2	A−	A-2	A−	F2		
Baa1		BBB+		BBB+		Lower medium grade	
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB−		BBB−			
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative	Non-investment grade aka high-yield bonds aka junk bonds
Ba2		BB		BB			
Ba3		BB−		BB−			
B1		B+		B+		Highly speculative	
B2		B		B			
B3		B−		B−			
Caa1		CCC+	C	CCC	C	Substantial risks	
Caa2		CCC				Extremely speculative	
Caa3		CCC−				Default imminent with little prospect for recovery	
Ca		CC					
		C					
C		D	/	DDD	/	In default	
/				DD			
				D			

Financial Reporting

OBJECTIVE

The City shall maintain clear, accurate, and understandable financial reporting that provides accountability and transparency for all components of the City's financial affairs and ensures compliance with applicable statutory and other regulatory requirements. The City's financial reports must meet requirements established by applicable governmental regulatory organizations. The GFOA recommends establishment of a financial reporting policy that endorses key accounting principles and that ensures external audits are property performed.

POLICIES

1) Accounting Practices

The City shall establish and maintain Citywide accounting practices that conform to Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

2) Financial Reporting

A) <u>Annual Comprehensive Financial Report (ACFR)</u>

The City shall prepare an Annual Comprehensive Financial Report (ACFR) each fiscal year in accordance with GAAP, GASB and state and federal regulations. The report must also meet the requirements of the Governmental Finance Officers' Association's Certificate of Achievement of Excellence in Financial Reporting. The City shall strive to present financial reports following best practices.

B) <u>Annual Financial Audit (Single Audits)</u>

The City shall contract with a qualified independent certified public accounting firm to perform an annual financial and compliance audit of the City's financial statements. The firm's opinions must be presented in the City's ACFR and the Single Audit Report.

C) <u>Revenue and Expenditure Reports</u>

The City shall prepare quarterly Revenue and Expenditure (R&E) reports detailing the City's year-to-date actuals and year-end projected revenues and expenditures for the General Purpose Fund (GPF) and may include select Non-General Purpose funds. The values are presented on a combination of cash and modified accrual basis. These reports should include a comprehensive analysis of revenue by category and expenditures by City department for the GPF, as well as fund balance projections for the GPF and select Non-GPF funds.

The R&E reports are to be presented as independent reports to the Finance and Management Committee (FMC) and published no later than 75 days following the financial close of each quarter, with the exception of the Fourth Quarter report, which shall be consolidated and presented concurrently with the following year's first quarter report.

D) Cash Management Report

The City shall prepare quarterly Cash Management Report summarizing the characteristics of the investment portfolios for the quarter. The Cash Management Report is to be presented to the Finance and Management Committee (FMC) and within 45 days following the end of the quarter covered by the report, with the exception of City Council's summer recess, the quarterly cash management report for the period ending June 30 will be deemed timely so long as the City Administrator submits the report to the City Clerk by the following September for scheduling to a City Council or a City Council committee meeting.

E) Annual Continuing Disclosure Report

The City shall remain in compliance with Rule 15c2-12 by filing an annual continuing disclosure report with its annual financial statements and other financial and operating data for the benefit of its bondholders within nine (9) months of the close of the fiscal year to the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") repository.

F) Retirement Plans Reports

i) Police and Fire Retirement Systems (PFRS) Report

The City shall prepare quarterly Investment Performance Report provided by the Oakland Police and Fire Retirement System (PFRS) Investment Consultant that summarizes the performance of PFRS investment portfolio. In addition, on an annual basis an Actuarial Valuation Report is presented to provide the actuarial funding status and projected City's contribution to PFRS.

ii) CalPERS

The City shall prepare an informational report summarizing the liability to the CalPERS retirement system within 75 days of publishing from CalPERS.

G) Grants Report

The City shall prepare an annual informational report detailing the grant awards that are appropriated midyear, and the status of pending grant applications.

H) Contracts Authority Report

The City shall prepare an annual informational report listing all purchases and contracts authorized by the City Administrator, within the City Administrators' contract authority.

I) <u>Status of Negative Funds</u>

The City shall prepare an annual informational report on the status of citywide negative funds.

3) Availability of Reports to the Public

The City's financial reports will be posted on the City's website and made available for public inspection.

HISTORY

- None.

Other Post-Employment Benefits (OPEB) Funding

OBJECTIVE

The purpose of the City's Other Post-Employment Benefits (OPEB) Funding Policy is to set forth the City's overall OPEB funding and benefit goals, the benchmarks that will be used to measure progress, and the methods and assumptions that will be used to develop and maintain these benchmarks.

POLICIES

1) **OPEB Program Goals**

The primary objectives of the City's overall OPEB program goals are to provide benefits that are:

- Affordable in the near-term, without crowding out the City's capacity to deliver quality services to the public or to provide reasonable salary increases to active employees;
- Sustainable over the long-term, ensuring that benefits will be secure and reliable for career employees throughout retirement, with substantial intergenerational equity for taxpayers regarding the funding of benefit costs; and
- Competitive, to support effective recruitment and retention of a strong municipal workforce.

The specific elements of this funding policy are intended to provide a balanced approach for addressing these goals within the parameters of the City's resources.

2) OPEB Funding Goals

The City of Oakland funds OPEB in two primary ways.

A) Explicit Subsidy

First, the City provides a benefit payment to eligible City retirees that is used to offset some or all of the cost of participation in health coverage. Prior to attaining Medicare eligibility, City retirees participate in the same health plans offered to active employees, and parallel plans integrated with Medicare are provided for retirees who have reached the age of Medicare eligibility. The City's benefit payment toward coverage in these plans is referred to in accounting terms as an explicit subsidy because it is structured as a contribution toward the stated premium costs for these plans.

To fund the explicit subsidy, the City participates in an irrevocable Section 115 Trust (hereinafter "OPEB Trust"). The objective in providing employer contributions to this OPEB Trust is to accumulate sufficient assets during a member's period of active employment to fully finance the benefits the member receives throughout retirement. Toward this objective, the City establishes the following OPEB Trust funding and related goals:

- Maintain a stable or increasing ratio of trust assets to accrued liabilities, with the goal of reaching a 100% funded ratio (full funding) for all explicit subsidy benefits. For this purpose, the funded ratio is defined as the actuarial value of trust assets divided by the trust's actuarial accrued liability for explicit subsidy benefits.
- Develop a pattern of stable and regular contribution rates when expressed as a percentage of member payroll as measured by valuations prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, ultimately reaching a minimum employer contribution level at least equal to the Actuarially Determined Contribution (ADC) associated with explicit subsidy benefits.
- Manage the cost of benefits through labor-management partnership and collective bargaining to reach and maintain an affordable and sustainable level of coverage.

B) <u>Implicit Subsidy</u>

Second, the City also provides an implicit subsidy toward retiree medical coverage. This cost to the City results from the pooled approach to the health plans in which the City participates administered by the California Public Employees' Retirement System (CalPERS) pursuant to the Public Employees' Medical & Hospital Care Act (PEMHCA). Under these PEMHCA plans, the same rates are charged for active and retired employee participants on a blended basis. In turn, because the underlying cost for retirees, on average, will be higher than the underlying costs for active employees, this blended CalPERS rate effectively leads to a subsidy of the true costs for retirees in the aggregate. This implicit subsidy takes the form of the higher payments by the City for active employee premiums than would otherwise be required if retirees were not covered under the same PEMHCA pool with blended rates. As of the initial 2 adoption of this OPEB Funding Policy, PEMHCA does not offer the option of using separate rates for active employees and retirees, such that this implicit subsidy is unavoidable under the PEMHCA program.

For any implicit subsidy, the City's objective will be to ensure that combined employer and employee/retiree contributions are made in full for annual premiums, such that this funding requirement will consistently be met on a yearly basis.

3) Benefit Program

The City's goal is to provide an affordable, sustainable, and competitive level of retiree healthcare benefits for career employees.

A) <u>Labor-Management Partnership</u>

Specific benefit structures are subject to collective bargaining for represented employees, and the City respects the negotiation process and values its labor-management partnerships.

In parallel with each biennial OPEB actuarial valuation, and in advance of any rounds of collective bargaining, the City should seek to review its retiree healthcare benefits relative to offerings among other Bay Area governments and large California cities.

As retiree healthcare benefits are periodically reviewed and renegotiated, the following principles will serve as guidelines for pursuit of any adjustments:

- Until the City's OPEB Trust is fully funded, the affordability and sustainability of the City's retiree medical benefits offerings will be evaluated on the basis of whether the City's ADC for explicit subsidy benefits can be fully funded with a combination of full Pay-Go Funding ("pay-go") plus a supplemental employer contribution of no higher than 2.5% of payroll.

- Periodic adjustments to benefits will be pursued as required to ensure full funding and plan sustainability under the terms of this policy. If the ADC for explicit subsidy benefits exceeds pay-go costs plus a supplemental City payment of 2.5% of payroll, then the City will seek to negotiate approaches to modify benefits to close this sustainability gap. Among the potential approaches for closing this gap, the City may pursue retiree benefit modifications and/or contributions toward future OPEB coverage from active employees.

- The City will also seek to negotiate reopeners for retiree health care benefits in any year during which the trigger outlined in Section 4(c) below is met for waiving or deferring supplemental City OPEB contributions beyond pay-go.

- Any proposed OPEB changes shall be accompanied by an actuarial valuation projecting the impact on the ADC, funded ratio, and overall OPEB actuarial liability.

B) <u>CalPERS Policies and Practices</u>

The City will also partner with its employee groups' representatives to explore and potentially advocate for appropriate policy changes by CalPERS, to the extent the City continues to provide retiree healthcare benefits through the CalPERS system. Such policy changes may include but are not limited to the development of plan design changes that do not incur penalty costs under the Affordable Care Act, and the separation of rates for active and retiree healthcare plans to eliminate the implicit subsidy.

4) Funding Policy for Sustainable Benefits

A) <u>Pay-Go Funding</u>

At a minimum, the City will fully fund its pay-go commitments to eligible retirees and beneficiaries for the benefits they receive each year, inclusive of any implicit subsidy resulting from the blending of active and retiree healthcare rates.

B) <u>OPEB Trust Funding</u>

The City will continue to make contributions to its OPEB Trust. Once full funding has been achieved on an actuarially sound basis, and as full funding is sustained thereafter, all explicit subsidy payments on behalf of retirees and beneficiaries shall be made from the Trust, with the

City also contributing the full ADC associated with explicit subsidy payments each year to ensure the continued health and sustainability of the Trust. Once full funding of the explicit subsidy is achieved, the annual City contribution will represent the actuarial normal cost for the explicit subsidy benefits, reflecting the dollars required to be set aside on a current basis so that active members' benefits will be fully funded upon retirement.

Until the Trust is 100% funded for explicit subsidy benefits, the City will make contributions in excess of the annual pay-go cost for current retirees and beneficiaries toward achieving full funding, under the policy outlined below.

i) Beginning in FY2020, the City will contribute an additional 2.5% of payroll above pay-go into the OPEB Trust on an annual basis until the liability associated with the explicit subsidy is fully funded.

ii) Consistent with Section 3(a) of this policy, If the sum of annual pay-go costs plus the supplemental contribution as outlined above is less than the ADC for explicit subsidy payments in that same year, then the City will seek to negotiate benefit and/or employee contributions sufficient to close this sustainability gap.

For the purposes of the above calculations, the ADC will be calculated with regard to retiree benefits exclusive of future implicit subsidy payments, as the City is committed to funding the implicit subsidy component of the OPEB liability on an ongoing basis through its general employee healthcare rates.

C) <u>OPEB Trust Funding Adjustments</u>

In addition to the above annual contributions, the City will continue to make further one-time contributions to the OPEB Trust when Excess Real Estate Transfer Tax (RETT) thresholds are met as provided in the City of Oakland Consolidated Fiscal Policy. This approach will help to build OPEB funding more rapidly, thereby improving plan stability and reducing future contribution requirements.

In the event of a severe economic downturn, the City will seek to continue the above payment structure in full, but, if authorized via Council Resolution, may temporarily reduce or defer its supplemental payments above pay-go until the City's revenues have recovered.

For the purpose of this provision: a severe downturn shall be defined as a fiscal year in which aggregate General Purpose revenues are projected to be negative and/or less than 50% of forecast growth in the Consumer Price Index for the ensuring fiscal year; and recovery shall be defined as the next fiscal year following a fiscal year when General Purpose revenues are estimated to have again been positive and exceeded 50% of forecast growth in the Consumer Price Index. In no event shall the City draw down from its OPEB Trust to meet pay-go costs if the ADC is not made in full for that same fiscal year.

5) Actuarial Approach

A) <u>Biennial Valuations</u>

An OPEB actuarial valuation will be performed at least biennially.

B) <u>Actuarial Method and Assumptions</u>

The actuarial funding method used to develop the benchmarks will be the entry age normal actuarial cost method. Any unfunded liability will be amortized over a closed 30-year period. Other actuarial assumptions used will be those adopted by the City Finance Department based on the advice and recommendation of the OPEB actuary. The actuary shall investigate each system's experience at least every five (5) years and use the results of the investigation to form the basis for those recommendations, consistent with Actuarial Standards of Practice (ASOP) and Government Finance Officers Association (GFOA) guidance.

6) Transparency and Reporting

Funding of the City's OPEB program should be transparent to all stakeholders, including City employees, retirees, employee organizations, elected officials, and Oakland residents and taxpayers. In support of this transparency, the following information shall be available:

A) <u>Report to City Council</u>

When each actuarial valuation for the City's OPEB plan is completed, typically on a biennial basis, a copy shall be transmitted to City Council along with a Finance Department report regarding progress toward full funding of the plan and ADC, and overall advancement of this policy's OPEB plan goals of affordability, sustainability, and competitiveness.

B) <u>Website Publication</u>

These OPEB actuarial valuations and the City's Annual Comprehensive Financial Report (ACFR) shall be published on the City's website. The ACFR includes information regarding the City's OPEB plan, contributions to the OPEB Trust, and the funded status of the plan.

C) <u>Budget Transparency</u>

The City's annual operating budget shall include clear and specific appropriations for contributions to the OPEB Trust and pay-go costs.

7) Review of Funding Policy

Sustainable OPEB funding requires a long-term commitment. To ensure that adequate resources are being accumulated to meet the City's OPEB goals, the City will review this policy biennially in conjunction with completion of its OPEB actuarial valuations.

HISTORY

- OPEB Funding Policy
  - Resolution No. 87551 C.M.S., adopted by City Council on February 26, 2019