


APPROVED AS TO FORM AND LEGALITY


CITY ATTORNEY'S OFFICE

OAKLAND CITY COUNCIL

RESOLUTION NO. _____ C.M.S.

RESOLUTION AMENDING AND ADOPTING THE DEBT MANAGEMENT POLICY OF THE CITY OF OAKLAND

WHEREAS, a debt management policy which provides guidance to City of Oakland (the “City”) staff and the City Council of the City (the “Council”) by identifying parameters for issuing debt and for managing the City’s debt portfolio is beneficial to the City; and

WHEREAS, the proposed Debt Management Policy is to be effective until subsequent policies are adopted; and

WHEREAS, the proposed Debt Management Policy shall apply to the City, Oakland Redevelopment Successor Agency, and Oakland Joint Powers Financing Authority; and

WHEREAS, the proposed Debt Management Policy has been considered at a public meeting of the Council; now, therefore be it

RESOLVED: That the Debt Management Policy of the City, in substantially the form attached hereto as **Exhibit A**, is hereby amended, approved and adopted, with such changes, additions, amendments or modifications as are approved by the City Administrator or her designee, in consultation with the Office of the City Attorney; and be it

FURTHER RESOLVED: That this Resolution shall take effect immediately upon its passage.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - FIFE, GALLO, JENKINS, KALB, KAPLAN, RAMACHANDRAN, REID, AND
PRESIDENT FORTUNATO BAS

NOES –

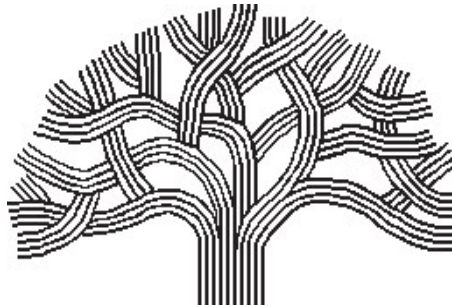
ABSENT –

ABSTENTION –

ATTEST: _____

ASHA REED
City Clerk and Clerk of the Council of the
City of Oakland, California

CITY OF OAKLAND



DEBT MANAGEMENT POLICY

Prepared by
Treasury Bureau

Presented to the
City Council
On
July 18, 2023

Adopted by the City Council
July 18, 2023

Executive Summary of Debt Management Policy

Goals and Objectives. In implementing a formal debt management policy (the “Debt Policy”), the goal of the City of Oakland (the “City”) is to maintain long-term financial flexibility while ensuring that the City’s capital needs are adequately supported, recognizing that its taxpayers share the overall debt burden.

- I. **Approach to Debt Management.** The City’s approach to its financings is to ensure continued market access at the lowest cost of borrowing. As such, the Debt Policy seeks to align its measure of debt affordability for the City with the debt ratios used by the rating agencies in evaluating the City’s credit. Debt ratios are defined as annual debt service payments as a percentage of General Fund and other revenues. Below are the debt ratio ranges:
 - Low debt ratio <5%
 - Moderate debt ratio 5% - 15%
 - High debt ratio >15%
- II. **Forward Debt 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 for the purpose of evaluating the City’s goal with respect to ad valorem property taxes levied for general obligation bonds as described in this Policy. Such schedule shall be available to any interested parties.
- III. **Standards for Use of Debt Financing.** Debt financing will be utilized when public policy, equity and economic efficiency favor debt over pay-as-you-go financing.
 - Debt will be used to finance long-term capital projects, and the respective maturities will not exceed the respective projects’ useful lives.
 - The City will seek to use the most economical financing alternative.
 - The City will seek to issue general obligation bonds as older voter-approved debt is retired and/or as the tax base grows, with the goal of keeping the ad valorem property tax rate levied by the City during each year that general obligation bonds are outstanding no higher than 0.2035%, the tax rate for Fiscal Year 2022-2023.
 - The City will ensure good record-keeping and compliance with all debt covenants and State and Federal laws.
- IV. **Financing Criteria.** Whether issuing long- or short-term debt, the City will determine the most appropriate repayment source, structure, mode (fixed or variable), and method of sale. These decisions will be made within the context of already existing obligations.
- V. **Terms and Conditions of Bonds.** In the issuance of its bonds, the City shall carefully consider and evaluate the term of the financing, use of capitalized interest, call provisions, original issue discount and the use of deep discount bonds.

- VI. **Credit Enhancement.** The use of credit enhancement is to be considered on a case-by-case basis and will be purchased only when debt service savings can clearly be demonstrated.
- VII. **Refinancing Outstanding Debt.** A minimum savings threshold of 3% or \$500,000, whichever is lower, in present value savings is utilized except when there are legal or restructuring reasons for defeasance.
- VIII. **Methods of Issuance.** The preferred sale method (negotiated or competitive) will be determined for each issuance of bonds. General Obligation Bonds and publicly-offered Tax and Revenue Anticipation Notes will be issued on a competitive basis, except on a case-by-case basis. However, other methods such as private placement may be considered on a case-by-case basis.
- IX. **Market Relationships.** The City will actively manage its relationships with the various rating agencies and analysts through frequent and open communication. The City will also maintain compliance with S.E.C. Rule 15c2-12 by the timely filing of its annual financial statements and other financial and operating data for the benefit of its bondholders.
- X. **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.
- XI. **Consultants.** The City shall utilize the services of independent municipal advisors (commonly referred to as financial advisors) and bond and disclosure counsel on debt financings, as applicable. The selection of financial consultant(s) shall be based upon firm and staff qualifications, and experience with debt structures similar to what is being proposed. However, depending on the type of financing, other service providers may be necessary which may include underwriter(s), trustee, fiscal agent, verification agent, escrow agent, arbitrage consultant and special tax consultant. In addition, the City should be encouraged to use local and disadvantaged banks and financial firms, when possible. Consultants will be required to provide complete disclosure regarding any agreements with other financing team members and outside parties. Selling groups may be considered for certain transactions. All parties are subject to post-performance evaluation.

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Introduction

To maintain the highest quality debt management program possible, the City of Oakland (the “City”) has adopted the guidelines and policies set forth in this document, referred to hereafter as the “Debt Management Policy.” The Debt Management Policy is intended to guide decisions related to debt issued by the City, Oakland Redevelopment Successor Agency, and Oakland Joint Powers Financing Authority. Debt issuance should be evaluated on a case-by-case basis as well as within the context of the City’s general debt management program. The City recognizes that changes in the capital markets and other unforeseen circumstances may require action deviating from this Debt Management Policy. In cases requiring exceptions to the Debt Management Policy, approval from the City Council will be required. The Debt Management Policy is not applicable to intra-City borrowing.

I. Goals and Objectives

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
- A. Ensuring the legal use of City bonding authority through an effective system of financial management and internal controls
- B. Promoting cooperation and coordination with other public entities and the private sector in the financing and delivery of services

II. 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 for 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.

1. **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%

2. **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.

3. **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.

4. **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.

- G. **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.

III. 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 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.
- D. **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.
- E. **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

- F. **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.

IV. Financing Criteria

- A. **Types of Debt.** 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.

1. **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.

2. **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:
 - a) **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.
 - b) **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.
 - c) **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.

- d) **Other Short-Term Debt**, including commercial paper notes, may be used.
- 3. **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.
- 4. **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:
 - a) **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.
 - b) **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.
 - c) **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.
 - d) **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.
 - e) **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.

V. 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.

VI. 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.
1. **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.
1. **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.

2. **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:
 - a) Ratings at least equal to or better than the City's
 - b) Evidence of ratings (including "Outlook")
 - c) Trading value relative to other financial institutions
 - d) 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
 - e) Representative list of clients for whom the bank has provided liquidity facilities
 - f) Fees, specifically, cost of LOC, draws, financial institution counsel and other administrative charges

VII. 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.

VIII. 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:
1. Bonds issued as variable rate demand obligations
 2. A complex structure which may require a strong pre-marketing effort
 3. Size of the issue which may limit the number of potential bidders
 4. 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 may issue conduit revenue bonds that are not a debt or obligation of the City itself, but are obligations of a private borrower. 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:
1. Bonds shall be issued only in denominations of not less than two-hundred and fifty thousand dollars
 2. Bonds shall be eligible for purchase only by "qualified institutional buyers" as defined in Rule 144A of the Securities Act of 1933
 3. 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
- 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 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.

IX. Market Relationships

- 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.

X. 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.

XI. 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.

1. **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.

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

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.

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.

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.

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.

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.

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

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.

2. **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:

1. Evaluation of risks and opportunities associated with debt issuance
2. Monitoring marketing opportunities
3. Evaluation of proposals submitted to the City by investment banking firms
4. Structuring and pricing
5. Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.)
6. Advice, assistance and preparation for presentations with rating agencies and investors
7. 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.

Glossary

Arbitrage. The difference between the interest paid on the tax-exempt securities and the interest earned by investing the securities' proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Balloon Maturity. A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

Bond Anticipation Notes (BANs). Notes issued by the government unit, usually for capital projects, which are paid from the proceeds of the issuance of long term bonds.

Bullet Maturity. A maturity for which there are no sinking fund payments prior to the stated maturity date.

Call Provisions. The terms of the bond contract giving the issuer the right to redeem all or a portion of an outstanding issue of bonds prior to their stated dates of maturity at a specific price, usually at or above par.

Capitalized Interest. A portion of the proceeds of an issue which is set aside to pay interest on the securities for a specific period of time. Interest is commonly capitalized for the construction period of the project.

Certificates of Participation (COP). Bonds secured by lease payments made by the party leasing the facilities, financed by the issue. Typically certificates of participation are used to finance construction of facilities (i.e., schools or office buildings) used by a state or municipality, which leases the facilities from a financing authority. Often the leasing municipality is legally obligated to appropriate moneys from its general tax revenues to make lease payments.

Commercial Paper. Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Competitive Sale. A sale of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities in contrast to a negotiated sale.

Continuing Disclosure. The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

Credit Enhancement. Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

Debt Service Reserve Fund. The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

Deep Discount Bonds. Bonds which are priced for sale at a substantial discount from their face or par value.

Derivatives. A financial product whose value is derived from some underlying asset value.

Designation Policies. Outline of how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders, which form the designation policy.

The highest priority is given to Group Net orders; the next priority is given to Net Designated orders and Member orders are given the lowest priority.

Escrow. A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

Expenses. Compensates senior managers for out-of-pocket expenses including underwriters' counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

Lease-Purchase. A financing lease which may be sold publicly to finance capital equipment, real property acquisition or construction. The lease may be resold as certificates of participation or lease revenue bonds.

Letters of Credit. A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

Management Fee. The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

Members. Underwriters in a syndicate other than the senior underwriter.

Moody's Median. Key financial, debt, economic and tax base statistics with median values for each statistic presented. Moody's uses audits for both rated and unrated cities to ensure that the medians presented are representative of all cities.

Negotiated Sale. A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Original Issue Discount. The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

Overlapping Debt. That portion of the debt of other governmental units for which residents of a particular municipality are responsible.

Pay-As-You-Go. An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

Present Value. The current value of a future cash flow.

Private Placement. The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

Rebate. A requirement imposed by the Tax Reform Act of 1986 whereby the issuer of the bonds must pay the IRS an amount equal to its profit earned from investment of bond proceeds at a yield above the bond yield calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.

Selling Groups. The group of securities dealers that participate in an offering not as underwriters but as sellers who receive securities, less the selling concession, from the managing underwriter for distribution at the public offering price.

Special Assessments. Fees imposed against properties, which have received a special benefit by the construction of public improvements such as water, sewer and irrigation.

Syndicate Policies. The contractual obligations placed on the underwriting group relating to distribution, price limitations and market transactions.

Tax Increment. A portion of property tax revenue received by a redevelopment agency or Enhanced Infrastructure Financing District, which is attributable to the increase in assessed valuation since adoption of the project area plan.

Underwriter. A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.

Underwriter's Discount. The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are reoffered to investors.

Variable Rate Debt. An interest rate on a security, which changes at intervals according to an index or a formula or other standard of measurement, as stated in the bond contract.